

**STATE OF CALIFORNIA  
TRANSCRIPT OF PROCEEDINGS**

**CALIFORNIA STATE LOTTERY COMMISSION  
COMMISSION MEETING**

**TIME:** 10:00 a.m.  
**DATE:** Thursday, January 16, 2020  
**PLACE:** California State Lottery Headquarters  
700 North 10<sup>th</sup> Street  
Sacramento, California 95811

Transcription Service: Martha J. Hanna  
Foothill Transcription Company  
8788 Elk Grove Blvd., Suite 2-D  
Elk Grove, California 95624  
(916) 443-7400

--oOo--

A P P E A R A N C E S

California State Lottery Commission

GREGORY AHERN  
Chair of the Commission  
Commissioner

PETER STERN  
Commissioner

KEETHA MILLS  
Commissioner

Participating Lottery Commission Staff

Alva V. Johnson  
Director

Fernando Aceves  
Chief Counsel

Nicholas Buchen  
Deputy Director of Finance

Jon Schlussler  
Deputy Director of Information Technology Services

Sharon Allen  
Deputy Director of Sales and Marketing

Jim Hasegawa  
Deputy Director of Business Planning

Elisa Topete  
Assistant to the Commission

Rebecca Estrella  
Recording Secretary

--oOo--

I N D E X

<u>Description</u>	<u>Page</u>
1. Call to Order	4
2. Pledge of Allegiance	4
3. Roll Call of Commissioners	4
4. Consider Approval of the Agenda	4
5. Approval of the Minutes of the November 21, 2019 Commission Meeting	5
6. DIRECTOR'S REPORT:	
a. Director's Comments	6
7. CONSENT CALENDAR	12
8. ACTION ITEMS	
a. Request to Add Positions	12
b. Microsoft Enterprise Licensing Agreement	24
c. United Parcel Service (UPS) Contract Agreement	32
9. Commissioner General Discussion	37
10. Scheduling Next Meetings -- March 19, May 28 and June 25, 2020 in Sacramento	40
11. Public Discussion	41
12. Adjournment	41
--oOo--	

Thursday, January 16, 2020

Sacramento, California

--oOo--

**CHAIRMAN AHERN:** We will call our Commission Meeting to order. Good morning, everyone. I'd like to ask you to please rise, and we'll do the Pledge of Allegiance. Please join me.

*(The Pledge of Allegiance was recited.)*

**CHAIRMAN AHERN:** Thank you. Item Number 3, will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman? Commissioner Stern?

**COMMISSIONER STERN:** Here.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Here.

**MS. TOPETE:** Chairman Ahern?

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

**COMMISSIONER STERN:** I'm fine with the agenda as it stands.

**COMMISSIONER MILLS:** No changes.

**CHAIRMAN AHERN:** Okay. Do I hear a motion to adopt the agenda?

**COMMISSIONER MILLS:** So moved.

**COMMISSIONER STERN:** Second.

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

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. All right, moving on to Item Number 5, Approval of the Minutes. Are there any corrections to the minutes?

**COMMISSIONER MILLS:** I actually have a comment I'd like to make.

**CHAIRMAN AHERN:** Okay.

**COMMISSIONER MILLS:** I noticed in the minutes that it referenced the call for the public for comments, but there was no reference to any conversation that we had as commissioners, and when I read the minutes, it sort of gave the appearance of a little bit of a rubber-stamp Board, which I think none of us wants to be, and so I would just ask that in the future, that there be some sort of reference made that when there is conversation or questions by Commissioners, so that it's noted publicly in the minutes.

**CHAIRMAN AHERN:** All right, very good point. All right, can I have a motion to approve the minutes?

**COMMISSIONER STERN:** Move it.

**CHAIRMAN AHERN:** We have a motion; do we have a second?

**COMMISSIONER MILLS:** Second.

**CHAIRMAN AHERN:** A motion and a second; will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. All right, Item Number 6 is our Director's Report. We'll call on Alva.

**MR. JOHNSON:** Thank you, Mr. Chairman.

**CHAIRMAN AHERN:** You're welcome.

**MR. JOHNSON:** All right, good morning everyone, Commissioners, Lottery staff, members of the public, thank you for coming here today for our meeting, Thursday, January 16<sup>th</sup>, 2020. In advance, I want to thank our Business Planning and Research Team for preparing the report I am providing to you at this time.

**CHAIRMAN AHERN:** Let there be light.

**MR. JOHNSON:** Okay. Through the first six months of the fiscal year, total Lottery sales through January 3<sup>rd</sup> are almost \$3.5 billion. This is now six percent under the

year-to-date goal and nine percent lower than through the first half of last fiscal year. Our multi-state games, Powerball and Mega Millions, continue to be the main reason for sales being below goal so far this year. Combined, their sales are \$343 million. Despite lower jackpots so far this year, December saw some improvement, as both games rolled to their highest levels this year. Scratcher sales are over \$2.6 billion through December and are three percent above sales through the same time last year. However, Scratcher sales are still about three percent below their goal for the first half of the fiscal year. SuperLotto Plus sales of \$130 million are now three percent lower than last year, as its jackpot hasn't been able to roll past \$13 million in the past two months. Daily Games have sales over \$200 million and are above goal and last year's sales. Hot Spot continues to perform well with almost \$170 million, four percent above goal and ten percent ahead of the first six months of last year. In addition to sales, we also assess how the Lottery's performing in terms of its profit goals. These calculations are done monthly, so through the week ending December 28<sup>th</sup>, our sales were running at 94 percent of goal, and our profits were at 92 percent of goal. Profits are further away from goal than sales, because our jackpot games have the biggest sales shortfalls, and they have higher profit margins than our Scratchers games and Hot

Spot. December was a stronger sales and profit month for the Lottery. The Draw Games improved to 85 percent of the profit goal due to strong sales from Mega Millions, Powerball and Hot Spot. In December Mega Millions hit its highest jackpot level of the fiscal year at \$372 million, and a winning ticket was sold in Ohio on Tuesday, December 17<sup>th</sup>. Powerball rolled through the entire month of December and has continued to roll in January. It's now up to \$321 million for Saturday and will be the largest Powerball jackpot so far this fiscal year. During Christmas week, Hot Spot sales exceeded \$7 million for the first time since the game's inception in 1997. The top three sales weeks for Hot Spot have occurred during this fiscal year. Just as a note, the other two top sales weeks were the first week of the fiscal year in July and the recent New Years' week, the week of January 4<sup>th</sup>. Finally, that same week, we also experienced the third-highest week for total Scratcher sales in Lottery history, with almost \$116 million. The highest was back in October in 1985 when Scratchers was the only Lottery product on the market, with \$119 million in sales, and the second-highest week was back in March 2019 in the midst of Monopoly Mania, which was at \$116.5 million at the time. So there's our current sales update. Can we answer any questions for you on these matters?

**COMMISSIONER STERN:** Yes, can you expand a little

bit on the seasonal or holiday offers and how that contributes to the overall December performance? Well, one, congratulations on the strong December, but curious on some of those offers or some of those promotions, how much that contributed to the uptick?

**MR. JOHNSON:** Well, I'll start the answer, but I would invite a couple of our deputy directors in Sales and Marketing and Business Planning to provide additional information. Our sales team -- we have several hundred folks out in the field spread across the four corners of the State servicing 23,000 retailers. They make a big push in the holiday season; that's when we have a lot of interest in the games as holiday gifts of various kinds, and a lot of our promotions and advertising takes advantage of that feeling and that thinking by promoting Scratchers as gifts and related messaging. We also had a couple of new promotions that we experimented with. We had a stand-up, in-person event at two malls, one in Southern California, one in Northern California, where we invited players to come and make custom-made, handmade gifts incorporating their Scratcher's purchase. The projects included basically giant presents that people walked up to. So we had a lot of different promotions and a lot of different ways to tell people about what we were doing. We even had an opportunity to work with the Ellen Show -- that was actually back in

November -- where they highlighted the Lottery and its contributions to education. So we've been working a lot in the holiday season to push those sales, and our sales team folks have been working extra hard to reach those numbers, so we congratulate the work by everybody on this. Did you want to add anything?

**MS. ALLEN:** You covered most everything. Very good, thank you. We've established over the last several years the opportunity for Scratchers to be a gift-giving opportunity, that it really is a meaningful gift, and every year for the last several years, we've been making it a tentpole of our effort to remind our regular, ongoing customers as well as those who are more casual, that these are great gifts, whether that's for friends and acquaintances or other opportunities, and we start our campaign right around the Black Friday, which is actually now a week or a weekend, and then we accelerate it on through the end of the year, particularly our "great last-minute gifts," so we leverage and capitalize on that. And so I think all of those efforts, combined with some of the unique tactics we did, really helped drive that, and it culminates in the last week because of the validations, and so those folks who have given gifts, right after, usually Christmas and New Years', there are redemptions and claims, and that's how we measure it. Additionally, we had a strong

product for the 2020 year; it was a 2020 ticket, and we put some additional marketing push around that to "bling in" the New Year --

**CHAIRMAN AHERN:** All right.

**MS. ALLEN:** -- with the 2020 ticket. So I think all of those efforts combined with the great work of the Sales Team and our retailers contributed to that.

**CHAIRMAN AHERN:** Did you want to add anything, Jim?

**MR. HASEGAWA:** Well, I just wanted to clarify or to make sure that it's understood that the \$116 million is based on what we call validation sales so that it's a way we estimate consumer movement of the tickets, rather than the financial sales, which would be the distribution less returned. And so that way, we really can measure the impact of what consumers are doing, and so that's what goes to Sharon's point that we see that really big spike in sales the week after Christmas because a lot of it is given as gifts. And actually, a lot of the work that the Sales and Marketing Team are doing is because we found insights that even prior to the campaign, some consumers were giving them as gifts, and they feel that it is a really good gift to give to people who maybe you don't know as well --

**MS. ALLEN:** Yep.

**MR. HASEGAWA:** -- because it's all type of thing,

and so the Sales and Marketing Team have really taken that to the extreme and really kind of brought that idea to the fore to people who maybe didn't think of that, and we've seen the gift-giving sales, if you want to call it, and our estimate of that really increase as our marketing efforts have increased to emphasize gift-giving.

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

**MR. JOHNSON:** Sure, and I just wanted -- I'm sorry?

**CHAIRMAN AHERN:** Very well done. Highest ever.

**MR. JOHNSON:** Thank you, Mr. Chairman. I just wanted to emphasize again the excellent work by our Sales Team -- a lot of folks spread out across the State, rain or shine, getting this done, and we're really grateful for their efforts.

**CHAIRMAN AHERN:** Okay. Thank you, Alva.

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

**CHAIRMAN AHERN:** And moving on to -- Item Number 7 is the Consent Calendar. There are no items under Consent, so we'll proceed to Action Items. Action Items Number 8, 8a, Request to Add Positions, and Nick. Good morning.

**MR. BUCHEN:** Good morning. Good morning, Commissioners. Nick Buchen, Finance Division. So Item 8a,

this request is to add a total of 11 new permanent positions to the Lottery. These 11 positions are for four different divisions -- Finance, Human Resources, Legal and Operations. I'll start with the requested positions in the Human Resources Division and Legal Division, since the underlying need in both areas is to address increased workload. Staffing in the Human Resources Division is insufficient to properly manage growth in HR workload and responsibility over the last several years, primarily arising from growth in the Lottery's workforce. The requested six new positions in Human Resources will have the following responsibilities: Strengthen the Lottery's ability to be proactive in building strong relationships with and being responsive to concerns of employee labor organizations; put needed focus on organizational development activities such as employee training and workforce and succession planning; as well as new recruitment, engagement and retention initiatives; perform ongoing management and review of the Lottery's Human Resources policies and procedures to ensure they remain current and that staff are properly trained on them; better manage the Lottery's various career executive assignment positions and exempt positions; and exercise more robust position-control processes to maximize transparency and establish consistency with government control agency practices. In the Legal Division, two new attorney

positions are needed to ensure proper legal oversight, program management and administration. Both positions are needed and justified, as staffing in the Legal Division has not kept pace with the significant growth in sales and retailers the Lottery's experienced over the last decade. This has resulted in an increase in the number and complexity of contracts requiring in-depth legal review. And it's worth noting that for the last several years, the Legal Division has benefited from a retired annuitant attorney, and this employee recently retired for good, so one of Legal's requested positions is essentially to backfill this vacancy. Moving to the other two divisions that are part of this proposal, the requested positions in both Operations and Finance Divisions are needed to ensure a proper span of control and oversight of supervisory and managerial positions to rank-and-file positions. In the Finance Division's Revenue Collections Unit, there is a combination of 14 professional and technical positions that currently all report to a single manager. The requested position will supervise the six full-time technical team members responsible for managing the Billing and Collections activities of all retailers selling the Lottery products across the State. This new supervisor position will afford additional leadership, guidance and support to provide a higher level of customer service to our retail partners. In

Operations, two new manager positions are needed to fully support and manage a new proposed Acquisition Administration Section and a resulting new branch. The new section and branch are the result of the proposed transfer of the Lottery's Contracting and Procurement Development Program from the Legal Division to the Operations Division. With this transfer, Operations will have oversight of the entire Contracting and Procurement lifecycle. This will better align the programming and controls necessary to ensure the integrity and fairness of the Lottery's Acquisition Program. In total, the 11 requested positions are estimated to cost approximately \$290,000 for the remainder of this current fiscal year, and this can be absorbed within the Lottery's current budget through salary savings. The full fiscal year cost of 11 new positions is approximately \$1.4 million, and this amount will fluctuate over time based on bargaining union contracts and salary-range adjustments. We recommend that the Commission approve the requested six positions for Human Resources, two positions for Legal, one position for Finance, and two positions for Operations. And with that, I'd be happy to answer any of your questions.

**CHAIRMAN AHERN:** All right. Do any of the Commissioners have any questions in regard to Action Item 8a?

**COMMISSIONER MILLS:** I have a question.

**CHAIRMAN AHERN:** Okay?

**COMMISSIONER MILLS:** I'm going to start with a comment and just say that I really appreciate the fact that leadership is paying attention to Back Office and to infrastructure and say nothing creates more dysfunction in an organization than starving your Back Office, so kudos for doing this work; it's not sexy work, but it's important work. With that said, I'll say I'm fairly new; this is my second meeting with the Lottery Commission, and within two meetings, we're now being asked to approve a total of 18 positions, so just on the surface, it seems like a lot, but I'm trying to put that in perspective. We're a ginormous organization, but it is about a two percent increase and in overall staffing of our 870 (staff) as a total budget, so I just want to make sure that we understand the processes that you guys went through to determine what your needs are. So I would like to hear just a little bit about, and maybe this is a question for Director Johnson, is the process that you're going through to assess what you have in your Back Office and what you need and how you're prioritizing and allocating your resource asks from a Back Office perspective?

**MR. JOHNSON:** Sure. Do you want me to -- I can come here. Thank you for the question. It's a really important one. We've been with the new leadership team for

about six months now, and we spent a lot of time looking at the internal health of the organization and realized that there are some needs with respect to communication and management support. And so when we first started work, the priority was making sure that we had adequate resources in our Security and Law Enforcement Division, and so, as you know, we've worked with CHP to install leadership there that has been very helpful to us in making sure that the systems and processes were organized in the right way, and we've had to do some restructuring as a result, making sure that the workload, the span of control, was done in the right way. Subsequent to that, we've turned our attention to the Legal Department. We've had a couple of long-time folks who have moved on, and that has provided an opportunity for our Chief Counsel to realize that the work can be approached in a different way in terms of how it's managed and categorized, and so some of these positions are kind of recasting positions that we had --

**COMMISSIONER MILLS:** Okay.

**MR. JOHNSON:** -- to be more effective to our current needs. But the larger question with respect to Human Resources, we've realized that there's a really important need to reinforce key values in service to the public trust and provide support and training, in particular for our middle managers, so we can proactively and

effectively support the workforce, and there are some needs there. To be able to fill those needs, we've got to provide additional support in the Human Resources Division so that they can then support the other divisions in the organization to be more effective. So we do realize that this has been a significant increase, and we are mindful of that, but as you pointed out, these are needs that have been there for a long time, and so we're trying to address them now.

**COMMISSIONER MILLS:** Great, thank you.

Specifically in the HR write-up, it talked about the use of technology and the fact that, although we are in an age of technology, that much of HR is still reliant on manual processes, and I think when you're looking at resource needs, I think about it three different ways. There's people, there's processes, and there's systems, and it seems like we're addressing perhaps the people part of it, but can you talk a little bit about how you're assessing both the processes piece of it and the systems piece of it?

**MR. JOHNSON:** Sure. You know, the challenge has been, in my relatively short time working at the Lottery, trying to figure out the best processes and procedures that are in place. Too often, I think we didn't have documented in a persistent manner the best processes and procedures. The policies more often than not were clear, either through

regulation or direction from the Commission or from the law, for example, but in terms of how to accomplish that, that policy, that was too often an inconsistently documented practice, and so we want to evolve to modern technology in a lot of the things that we do. I think it would be a way for us to be more effective and more efficient if we could, for example, digitize a lot of our paperwork approvals. But to do that, you first have to figure out, okay, what is the best practice for moving that paper through the whole steps and the procedure? And we've spent a lot of time -- we have a working group that meets regularly -- discussing how to improve our processes so that we can reduce the number of touches but make sure that we have the right approvals so we don't have things slip through the cracks. And once we had that document and laid out, then we can automate it.

**COMMISSIONER MILLS:** Sure.

**MR. JOHNSON:** But even that automation step requires a review of available technology, a review of best practices in our sister agencies with the State of California, guidance from our leadership, and then of course, a determination of best value and best cost. So none of these things happen quickly, but we're engaged in kind of a multiple level of transformation that we've embarked on just in the last six months. So, you know, I would say we would need to continue making progress on

documenting our best policies and procedures, and then as we do that, then we want to find ways to make it even better with technology, but it's a work in progress.

**COMMISSIONER MILLS:** That's great; thank you, and I would really encourage you to really prioritize that work of both the processes and exploring different technology tools. To hear that we've got a lot of data entry happening in 2020 is painful for me, and I would think, you know, thinking about the workforce, if we have a number of people in our workforce that are in data entry jobs, those jobs, quite honestly, are becoming obsolete, and it's a bit of a disservice, I think, for our employee base as well to not have the technology of today to help them do their jobs. So, and thank you for doing that work, and I encourage you to continue on with that, and I hope to see new approval things come forward that include that include more technology to help our people do their jobs better.

**MR. JOHNSON:** Thank you so much, and in fact, our next item on the agenda is a big technology item.

**COMMISSIONER MILLS:** I have one -- I think it's my last question; I have several questions on this. This is a big ask. So I have a question about the movement of the procurement function out of Legal and into Operations, and as I think about procurement, I think that's a huge partnership between Legal and Operations because you need to

buy things that you need to run your business, and Operations people know that best, but you need to do it in a compliant way, and in a way that shows that we're good stewards of public funds, and it sounds like that function has sat in Legal, and maybe, I can see where you could maybe have an overfocus on compliance and not maybe getting the best thing for Operations, but now we're moving that over to Operations, so I could also see a point of having an overfocus on what do we need for our business and less focus on compliance and best value. So can you talk a little bit about, no matter where that function sits, how that partnership between Legal compliance and business needs work and how you see that working together going forward and ensuring that we have the right compliance and best cost oversight over that function, even though it's now going to sit in Operations?

**Mr. Johnson:** Commissioner Mills, thank you for the question; it's a great question. We realized early on that our processes and procedures for approving contracts needed some work. So we spent a lot of time with an interdisciplinary, interdivisional team trying to evaluate what the current state is and what we can do better. And I've had to spend some time learning about Lottery history. Apparently, the Contract Development Services function has shifted back and forth between Legal and Operations over the

years. What I wanted to do with my turn in the leadership was, one of my overarching goals is to establish clear roles for our functions and then make sure that they've got, in each of those different roles of the various divisions and groups, as much support as management can give them to do their job. And when I arrived in June last year, it was clear that with the Contract Development Services Unit, they do a lot of good work, but there were some issues. There were some challenges, and one of the things that the team collectively decided was one of the ways that we could have a fresh start in doing things with the right amount of checks and balances is by moving it back to Operations, making sure that Legal has the opportunity to provide input, to provide guidance. You know, I said to the Chief Counsel and his team, we defer to the lawyers on the legal questions, but when it comes to program and execution of the contracts, we need to have a tight relationship there between Contract Development and Contract Administration. So in terms of the Org Chart, that's what we're doing to provide a clear channel and better checks and balances, but we are still right in the midst of our work because we are also evaluating ways to incorporate technology to make this a more efficient process and to modernize it, but I've urged the team to take a look at all of our options and go through this in a very methodical and careful manner so we don't

break something by moving too fast. Contracts is a very important aspect of our administration and management, and we're trying to get this right the first time.

**COMMISSIONER MILLS:** Great, thank you.

**MR. BUCHEN:** And I would just add one final point to add context to the concern of this being a large request. There's no question it is, but from the standpoint of, going back to Fiscal Year 2009-10 to now, the Lottery has grown by over 200 positions, about a 35 percent increase that, the vast majority of that growth has been in the field, in our Sales force that are needed to service the retailers and keep pace with the growth in retailers, all of that. So particularly with respect to the HR request for six positions, you can imagine the strain on HR trying to keep pace with that significant a percentage of growth to the entire organization.

**COMMISSIONER MILLS:** Thank you; that's important context. When I looked at -- I mean, I think there are currently 31 approved positions in HR for an organization of 870 people, it does seem quite thin.

**CHAIRMAN AHERN:** And also, I think your increase in full-time-equivalent (FTE) employees is in percentage with the amount of percentage of increased income you've provided to the schools, so people are doing a lot of great work. The salary savings I think, if I got this

right, is going to take care of the \$290,000 for this upcoming fiscal year?

**MR. BUCHEN:** In this current fiscal year that we're in, correct.

**CHAIRMAN AHERN:** That still leaves us some other salary savings money in the bank, correct?

**MR. BUCHEN:** Correct.

**CHAIRMAN AHERN:** Okay. Thank you. All right. Any other Commission questions? Does any member of the public want to address the Commission regarding Action Item 8a? Seeing none, do I hear a motion to approve Action Item 8a, Request to Add Positions?

**COMMISSIONER MILLS:** So moved.

**COMMISSIONER STERN:** Second.

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

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. All right. Action Item 8b. Thank you, Nick. Moving on to Jon, Microsoft Enterprise Licensing Agreement.

**MR. SCHLUSSLER:** Good morning, Commissioners.

**CHAIRMAN AHERN:** Good morning.

**MR. SCHLUSSLER:** I loved the IT questions, by the way. Keep it up. Good job. This agenda item is specifically related to the Microsoft Enterprise Licensing Agreement that we have had for over 20 years, where we occasionally renew that agreement, and what we're doing on this one, this one expires this year on February 29<sup>th</sup>, and so we're re-upping that agreement with the same kind of software that we've had and making sure that our Cloud software is also in alignment with our public website and some of the upgrades that we're trying to do with our infrastructure internally. The Lottery uses this software for each employee on our personal computers, the servers and our Cloud-based software, as I just mentioned. This agreement covers all operating systems, the Office 365 product suite and miscellaneous other Microsoft software products similar to SharePoint and other software like Visio or other Office Productivity Suite tools. The State of California offers this through what's called Software Licensing Program, which is a governed program through General Services, and it offers it at what they consider to be the best value for the State, and this is a three-year agreement. You'll see that on the second page, the group is broken up by dollar amounts in different amounts, whether it's Office 365, the server tools, or the Cloud

subscriptions, and then there's a fourth contingency. That contingency will only be used as we need it, but this gives us the authority to use it when we actually do need it because of any growth in personnel or any growth in movement of technology up to the Cloud. So this gives us that flexibility to make that move as we need to. This is a total request of \$4.818 million, and it covers three years that would end on February 28<sup>th</sup>, 2023. At this point, I'd like to ask if there are any questions?

**CHAIRMAN AHERN:** All right; do any Commissioners have any questions?

**COMMISSIONER MILLS:** I just had a comment. I just wanted to recognize and commend you on using the leveraged procurement agreement through DGS; I think that gives us a lot of comfort that it's the best price, and it's a price that leverages all State agencies in California versus just the Lottery Commission --

**MR. SCHLUSSLER:** That's correct.

**COMMISSIONER MILLS:** -- and so I appreciate that work to be a good steward (overlapping).

**MR. SCHLUSSLER:** Thank you; appreciate it. We actually take advantage of many leveraged procurements, including others that are available to us through the Department of Technology, which is governed by DGS, obviously, so, yeah.

**COMMISSIONER MILLS:** Excellent, thank you.

**MR. SCHLUSSLER:** Thank you.

**COMMISSIONER STERN:** Yeah, just to expand on that leveraging in the Enterprise Software License Agreement's a great way for bursting, so as your hiring configuration changes --

**MR. SCHLUSSLER:** Right.

**COMMISSIONER STERN:** -- or from an infrastructure Cloud perspective, if you have bursting or whatnot, that's a very efficient way to procure technology. So my question is around, so you have quite a few employees and a mobile workforce or a field service capacity.

**MR. SCHLUSSLER:** Yes.

**COMMISSIONER STERN:** I assume this covers them as well?

**MR. SCHLUSSLER:** Yes, it does.

**COMMISSIONER STERN:** Okay, great, and then from that end, are there other tools or technologies that the mobile workforce requires in addition to this? Obviously, the requirements in a mobile field capacity are different than if you're inside the four walls of a company, so just curious if you can expand on that?

**MR. SCHLUSSLER:** Absolutely, there are. The Office 365 Suite covers most of the office productivity-type suite, and we have that offered to our mobile users, but in

addition to that, we have sales-specific software, but it's not provided through a typical-type contract. It's provided through our gaming systems contract, which is with IGT, and we use a product called OnePlace. IGT calls it Sales Wizard. We call it OnePlace -- actually, the same name, same purpose, but that product provides all of the sales staff the capability of looking up specific information on retailers and all of that. It's similar in nature to what Salesforce is. You're familiar with that, I'm sure, but this is very specific to the lottery industry and takes advantage of the gaming data that we have within our gaming system.

**COMMISSIONER STERN:** Great. And then the last question, what are your device requirements if you're out in the field to use that proprietary technology? Are they on tablets? Are they on laptops? Are they --

**MR. SCHLUSSLER:** Great question. We have a combination right now. We're in the process -- last time I was here, I asked for \$1.7 million for upgrading technology, including some of the field hardware, which is moving from an iPad and a laptop to a Surface Pro, so we're migrating two into one, and what that allows us to do is take advantage of this, and, yes, it's basically a web interface to the OnePlace software that allows us to get what we need done. Currently we do that with an app and the iPad for

those sales staff who do not have the new device, and as we move to the new devices, they won't have to carry both devices; they will only have to carry one device, and that will allow them to do that. And so, I'm sorry; I may have gone down an alleyway; did that answer --

**COMMISSIONER STERN:** Yeah, it did; thank you.

**MR. SCHLUSSLER:** -- it's good? Okay, sorry about that.

**COMMISSIONER STERN:** Yeah, that's helpful; it was really helpful. Thank you.

**MR. SCHLUSSLER:** I love this stuff, so, yes, any (overlapping), I'll go.

**CHAIRMAN AHERN:** And in our briefing, I forgot to ask. We are worried about intrusions and systems security.

**MR. SCHLUSSLER:** Yes.

**CHAIRMAN AHERN:** And so who manages the firewall? Does Microsoft manage the firewall? Does the State of California, or does Lottery have their own, or is it a mixture of all three?

**MR. SCHLUSSLER:** It's a mixture of that.

**CHAIRMAN AHERN:** Okay.

**MR. SCHLUSSLER:** We have -- for Cloud services, that's part of the contract with Microsoft to manage those, and we use various types of security measures up there, but

Microsoft offers a good suite of tools, and we use other types of firewalls internally that we manage also, and for our district offices, we have other hardware for managing the security of those devices also. So we have a well-rounded suite of tools to ensure that our devices are protected and our employees are protected and our email is protected.

**CHAIRMAN AHERN:** And are all your systems on Windows 10, or do you still have old systems on Windows 7?

**MR. SCHLUSSLER:** We still have about 400 systems on Windows 7 that were, as I mentioned back in November or December, whenever the last Commission meeting was, was when I asked for the opportunity to purchase that, and we've upgraded already 300 and some, and we plan to do the next 400 in the next couple or three months.

**CHAIRMAN AHERN:** Are we paying Microsoft to cover those? My understanding --

**MR. SCHLUSSLER:** Yes.

**CHAIRMAN AHERN:** -- is that Microsoft has agreed to cover the security issues with Windows 10; however, they're go to stop continuing protecting Windows 7.

**MR. SCHLUSSLER:** You know the industry well, yes.

**CHAIRMAN AHERN:** Are we paying Microsoft extra money to contract to protect those?

**MR. SCHLUSSLER:** We are, as a matter of fact. There is a small amount of money that they've charged to ensure that we have the security patches necessary for the Windows 7 devices; hence, the need to -- and I can't remember the amount, but it was in the thousands, not hundreds or tens of thousands. So, but the idea there is that we are very anxious to get those rolled out, all that hardware and software rolled out, and we're working with our providers to make sure that when they come on site, they already have the hardened operating system that we've sent to them so that it can reduce the level of effort from our staff internally so that we can roll those out to the staff faster.

**CHAIRMAN AHERN:** And is your staff physically doing the patching, or does Microsoft do the patching?

**MR. SCHLUSSLER:** We do the patching through automated processes, but Microsoft, like all the vendors that have either software -- I told you I can talk about this forever, man --

**CHAIRMAN AHERN:** Yeah.

**MR. SCHLUSSLER:** -- so all the vendors offer patches for their different products, for their different product suites or software suites. We have tools that automatically push out the patches to the user devices.

**CHAIRMAN AHERN:** All right. All right, thank

you very much.

**MR. SCHLUSSLER:** You're very welcome. Any other questions?

**CHAIRMAN AHERN:** Very impressed with your process. Didn't mean to put you on the spot; I should have asked it during the briefing. All right. Any other questions from the Commissioners? Does any member of the public want to address this regarding Action Item 8b? Seeing none, is there a motion to approve Action Item 8b?

**COMMISSIONER STERN:** Move 8b.

**CHAIRMAN AHERN:** A motion; do we have a second?

**COMMISSIONER MILLS:** Second.

**CHAIRMAN AHERN:** A motion and a second; will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. All right, thank you very much, Jon.

**MR. SCHLUSSLER:** Thank you.

**CHAIRMAN AHERN:** All right. Okay, Sharon Allen is here to cover Action Item 8c, UPS Contract Amendment.

**MS. ALLEN:** Hi, good morning.

**CHAIRMAN AHERN:** Good morning.

**MS. ALLEN:** Good morning. All right. The Lottery currently contracts with United Parcel Services or UPS.

**CHAIRMAN AHERN:** I have a question for you.

**MS. ALLEN:** Okay. I'm ready for you. The Lottery currently contracts with United Parcel Services or UPS for Scratchers Ticket Delivery and Return Services. The existing term is set to expire on February 19<sup>th</sup>, 2020. Staff recommends that the Commission approve an amendment to the UPS contract to extend the contract term by one year. In 2012, the Commission awarded UPS a five-year contract for Scratchers ticket delivery services with the option of two one-year extensions and an emergency extended service provision for a period not to exceed 12 months. The original maximum contract expenditure amount was \$20 million. In April of 2013, the Commission approved an additional \$3.26 million in funds, bringing the maximum authorized amount to \$23.26 million. In 2016 the Commission approved the first option to extend for one year and increase the maximum expenditure amount to \$10.8 million for a total of \$34.06 million. In November of 2017, the Commission approved the second option to extend for one year and increase the maximum expenditure amount by \$8.4 million to \$42.46 million in total. In November of 2018, the

Commission approved the emergency extended service provision to extend the term for one year through February 19<sup>th</sup> of 2020 and increase the maximum authorized expenditure amount by \$7.2 million to \$49.66 million. A Request for Proposal was released in September of 2019 for Scratchers Ticket Delivery Services which was subsequently canceled. The Lottery will need time to evaluate the best value and options available to either revise the scope of services and release a new RFP or request approval for a non-competitive bid. This process will exceed the remaining time left in the current term, due to the time and effort associated with issuing a new RFP or non-competitive bid, awarding a contract, and if necessary, onboarding a new vendor. During the term of the contract, UPS has provided a consistent level of service in the delivery of Scratchers products to our over 23,000 retail partners. Extending UPS' contract will ensure that the Lottery continues mission-critical services without interruption to Scratchers product delivery while completing the solicitation, evaluation of bids and award of a new contract. This additional year will extend the current contract through February 19<sup>th</sup>, 2021. Staff recommends the Commission approve the amendment to the UPS contract for Scratchers Delivery Services to extend the term by one year and an additional \$8.3 million. This contract amendment will increase the maximum authorized contract expenditure

amount to \$57.96 million and extend the term through February 19<sup>th</sup>, 2021. And with that, I'll be happy to answer any questions.

**COMMISSIONER STERN:** Can you expand a little bit on, as you're thinking through the RFP process, some of the key considerations? So, if I think about just the shipping and the logistics industry, if I'm buying something on Amazon like laundry detergent or books, it can go through a low-cost provider, not a problem. If it doesn't show up, not that big of a deal; I don't need a signature at the other end. I would assume that you're looking at security standards, quality, tracking, accountability, so you might not be looking at the lowest-cost provider. You want to be efficient, but at the same time, you'll have other considerations.

**MS. ALLEN:** Absolutely, all of those things. Security is utmost; we want to make sure that all of our deliveries are received on time. There are background check requirements within the scope as well as requirements about uniformed personnel and marked vehicles. There's been so much pressure I think on all of the shipping vendors due to the increase in online shopping from a consumer perspective that the industry is transforming very quickly, and I believe that's why we need to go back and look at our requirements to make sure that we can find an appropriate

vendor at the right value but also not compromise on our security standards.

**CHAIRMAN AHERN:** Great, thank you.

**COMMISSIONER MILLS:** I have a follow-on question, actually, to that. It looks like we had somewhat of a failed RFP process. We tried to get through an RFP process and had to cancel the RFP. Can you talk a little bit about kind of lessons learned from that and the steps we'll take to kind of make sure we put together an RFP that meets all of our requirements but that can actually be successful so that we can have the assurance that we are getting, you know, kind of best price and the right service for the entity?

**MS. ALLEN:** Sure, absolutely. While we had done this in the initial RFP, we are going to go back and look at the scope of services and the requirements and do a further analysis. We've already started talking to other lotteries and surveying what they are doing. They're looking not only at who their shipping provider is but also what are their contract terms, what are their RFPs, things --

**COMMISSIONER MILLS:** Mm-hmm, great.

**MS. ALLEN:** -- and starting there and then also looking at other, just broader issues within the shipping and logistics industry. I think it has transformed so

quickly that we didn't anticipate some of these needs that we're going to have to adapt to and then evaluate what the best option is for the Lottery.

**COMMISSIONER MILLS:** Great, thank you.

**CHAIRMAN AHERN:** All right, any other questions? Does any member of the public want to address the Commission at this time regarding Action Item 8c? Seeing none, is there a motion to move Action Item 8c?

**COMMISSIONER MILLS:** So moved.

**COMMISSIONER STERN:** Second.

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

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIRMAN AHERN:** Yes. Thank you (overlapping).

**MS. ALLEN:** Thank you.

**CHAIRMAN AHERN:** All right. All right, Item Number 9, Commissioners General Discussion. Do any commissioners have anything they'd like to bring up at this time?

**COMMISSIONER MILLS:** I actually have two things --

**CHAIRMAN AHERN:** Good.

**COMMISSIONER MILLS:** -- I'd like to bring up.

First, I really appreciate the report from Director Johnson at each meeting and understanding kind of how we're doing from a sales perspective and a profit perspective. That impacts our contribution to education. But I want to request that leadership think about maybe some additional financial information that could be provided to us as commissioners, especially as it relates -- so I've been to two meetings, so I'm still going to claim the newbie card, but in both meetings, we've been primarily asked to approve expenses that are mostly operating expenses, administrative expenses, kind of controllable-type expenses, and there's not a lot of kind of transparency around, like, what that budget looks like and how the things that we're approving impacts those areas. And so, I would just request that leadership kind of think about what type of financial information might be helpful to us as commissioners in understanding kind of the administration bucket, both controllable and the uncontrollable. That's not out-of-control admin; that's a different thing. I think it would just be helpful to provide helpful context to us in our voting and decision making. And then the second thing I wanted to request for consideration, especially as I'm learning, and this is a huge, mammoth organization, and I appreciate the time staff has spent with me, specifically on

orienting me, but think I'd like to request consideration of maybe some other types of presentations in these meetings that maybe highlight some function at the Lottery to help educate us and/or I think even more importantly, how we're supporting education and maybe some of the programs that we're supporting so that we don't lose sight of kind of the mission, the purpose of why we're here.

**MR. JOHNSON:** You know, those are great ideas, and we've had similar thoughts just in the few months we've been trying to understand the Lottery and figure out ways to make sure that the Commission knows and the public knows what's going on. And I think that one of the issues that's been there since the Lottery's inception is how the Lottery supports education. You know, I did just a little bit of research on this and found an article in the New York Times from 1988 that questioned whether Lottery dollars go to education. The Lottery was only four years old at the time. So, it's always been an issue, and we have told the story over the years, but I think we need to look at some new ways to tell the story about specific ways the Lottery does help students. The Lottery dollars touch every aspect of public schools in California, from K-12 to universities to even the Department of Corrections. There are a lot of good stories out there, and a lot of them are featured on the Lottery's YouTube channel, but I think that we need to find ways to

really be more proactive in the information that we provide and provide more examples, and so that's something that we're keenly aware of, and it's one of our priorities this year. In terms of other types of presentations at these Commission meetings, we agree. That's something that we want to do, and we want to work with you to find something that meets your needs and priorities. I was surprised to learn when staff presented to me about, I don't know, four to six weeks ago, how back once upon a time, there were more presentations on subject-matter issues, not just financials, and so that's something that I wanted to start doing this year, and we're going to be building up to that with respect to the new Audit Committee that you recently approved. We want to provide more information to the Commission and to the public about what's going on and not just our sales data. So it's in development, but it's something that we want to happen.

**COMMISSIONER MILLS:** Great, thank you.

**CHAIRMAN AHERN:** I have some ideas for you.

**MR. JOHNSON:** Yes, sir.

**CHAIRMAN AHERN:** Okay. All right. Good point.

Peter, anything?

**COMMISSIONER STERN:** No, no comments.

**CHAIRMAN AHERN:** Okay. Item Number 10 is Scheduled Meetings. We've tentatively scheduled Commission

meetings on March 19<sup>th</sup>, May 28<sup>th</sup> and June 25<sup>th</sup>, all in Sacramento. Item Number 11 is Public Discussion. No one's signed up, so we'll move on from there. And before we adjourn, I'd like to publicly thank Ms. Libang-Bobila for over five years of service with the Commission. She was a great partner with us. She'll be missed, and we'd like to thank her for all of her hard work and dedication to the Lottery. With that, we're adjourned. Thank you.

(End of Recording)

**(MEETING ADJOURNED)**

--o0o--

