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CALIFORNIA STATE LOTTERY COMMISSION

COMMISSION MEETING

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**Thursday, January 28, 2021**

**Sacramento, California**

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**CHAIR AHERN:** Today is January 28<sup>th</sup>, 2021. It is 10 o'clock in the morning. We will call our Lottery Commission meeting to order. We will start with the Pledge of Allegiance. I will stand and start the salute with me.

*(The Pledge of Allegiance was recited.)*

**CHAIR AHERN:** And my compliments to the IT people -- a nice touch with the flag. Thank you. Okay. We'll have a Roll Call of the Commissioners. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Here.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Here.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Present.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Here. All right, thank you very much. Item Number 4 -- Commissioners, does anyone want to suggest any changes to today's agenda in any respect?

**COMMISSIONER KIRTMAN:** No.

**COMMISSIONER STERN:** No (inaudible) to changes.

**CHAIR AHERN:** Uh-huh. Hearing none, do I have a

motion to adopt the agenda?

**COMMISSIONER KIRTMAN:** Motion to adopt.

**CHAIR AHERN:** I have a motion; is there a second?

**COMMISSIONER STERN:** Second.

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

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right, thank you very much. Moving on, Item Number 5 is the Approval of the Minutes. Are there any corrections to the minutes? Hearing none, do I hear a motion to approve the minutes of the November 19<sup>th</sup>, 2020 Commission Meeting?

**COMMISSIONER KIRTMAN:** Motion to approve the minutes.

**CHAIR AHERN:** We have a motion; is there a second?

**COMMISSIONER MILLS:** Second.

**CHAIR AHERN:** Got a motion and a second. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right, we're off to a smooth and a great start. Item Number 6 is the items for discussion, and we have some informational items. We'll turn it over to Alva. Alva?

**DIRECTOR JOHNSON:** Thank you, Mr. Chairman and Members. I'm going to present Item 6a on the agenda. This is a quick review of sales for the last period. Let's go to the first slide, please. Total Lottery sales through January 23<sup>rd</sup> are just over \$4.58 billion. This is 21 percent higher, or about \$790 million above the sales goal for the first 30 weeks of the fiscal year. This also represents a 22 percent increase in Lottery sales over the same time period last year. You may recall from the past couple of Commission meetings that this table displays Scratchers sales based on ticket distribution to our retailers minus the returns from those retailers. This is the same methodology as used in our financials. With that being said, total Scratchers sales based on ticket distribution

are now over \$3.4 billion. Year-to-date sales in this product category are 33 percent ahead of its goal through this time period and are 22 percent higher than last year's Scratchers distribution sales during the first 30 weeks of the year. Scratchers experienced another strong holiday season this year. The week ending January 2<sup>nd</sup> set an all-time record high for weekly Scratchers sales with over \$132 million. Scratchers sales then stayed strong into January, as jackpot fever set in. Unlike in November, when we reported the total Lottery sales were above goal predominantly due to the strength of the Scratchers product line, this month we are happy really that the multi-state games also now have sales higher than goal and last year's sales. Mega Millions and Powerball combined, which make up the multi-state games category, have total year-to-date sales over \$612 million. Last week, the Lottery saw jackpots for these games reaching levels not seen since October 2018. On Wednesday, January 20<sup>th</sup>, Powerball had a jackpot of \$730 million. On Friday, January 22<sup>nd</sup>, Mega Millions hit \$1 billion. This was the fourth time in Lottery history that a jackpot was at or above \$1 billion. A lucky ticket in Maryland won the \$730 million Powerball jackpot, and the lucky ticket in Michigan won the billion-dollar Mega Millions jackpot. Although a ticket sold in California did not hit these jackpots, since mid-September

10 million winning tickets were sold in California for these two games worth over \$66 million in prizes. Sales from these past several weeks have pushed total year-to-date sales for these two games past last fiscal year's sales by more than 50 percent. To put this in perspective, at the last Commission meeting in November, we were reporting multi-state game sales were 10 percent lower year over year. Additionally, with year-to-date sales close to \$350 million, Mega Millions is exceeding goal by 58 percent (inaudible) total annual goal for the full 52 weeks of the fiscal year is \$388 million, meaning that in just over half the year, Mega Millions has brought in 89 percent of its total annual goal. SuperLotto Plus has brought in \$134 million so far this fiscal year, coming in at \$1.3 million above its goal. While SuperLotto Plus sales are currently six percent behind last fiscal year's sales, during the last Commission meeting, we were reporting sales 17 percent slower than the prior fiscal year. As is typical with jackpot fever and the increased interest in Lottery products, more than just the multi-state games saw higher than expected sales over these past few weeks. As mentioned earlier, Scratchers sales remain strong, but the game to see the highest boost to sales was SuperLotto Plus. Players chasing the high Mega Millions and Powerball jackpots were also spending the extra dollar on California's jackpot game. Over these past two

weeks, sales for SuperLotto Plus were over \$14 million, roughly 70 percent higher than sales typically seen for jackpots at these levels. The Daily Games, which include Daily 3, Daily 4, Fantasy Five and Daily Derby, continue to see strong sales this fiscal year. Combined, these games are running ten percent above goal and six percent higher than last fiscal year's sales through this time. Lastly, Hot Spot sales through January 23<sup>rd</sup> are just below \$200 million. Fiscal year sales are running 11 percent above goal and six percent higher than last fiscal year. Next slide, please.

We also assess how the Lottery is performing in terms of its most important measure, the contributions to our beneficiary, public education. These calculations are based on the Lottery's monthly Cumulative Financial Sales Report through December 31<sup>st</sup>. Over the first half of the fiscal year, our sales were running 12 percent ahead of its goal, while our contributions to education were about seven percent ahead of our goal over that same time period. Because our Scratchers sales were well above their sales goal, and jackpot game sales were behind their goal at this time, our contributions to education had a more modest increase in sales, due to the fact that Scratchers have a lower profit margin than jackpot games. This will likely be a different story when the recent high jackpot game sales in

January are included. We are potentially seeing the Draw Game profits increasing to meet goal for the first time this fiscal year. Next slide, please.

As stated in earlier slides, consumer demand for Scratchers set records in the latter part of calendar year 2020. Since early September, Scratchers have continued to bring in sales above goal and greater than last fiscal year. The above chart shows weekly Scratchers consumer sales since the start of this fiscal year. These sales use claims to better estimate real-time consumer demand for Scratchers rather than based on distribution. For the first two months of the fiscal year, the Lottery was adapting to the continued COVID-19 pandemic and the required social distancing protocols. As mentioned during the last Commission meeting in November, warehouse operations constraints resulted in supply shortages to retailers and hampered Scratchers sales. However, by September, modifications in the distribution centers had been implemented, allowing for the launch of eight new Scratchers games to occur. These new games, which included a \$30 game and three PAC MAN-themed tickets pushed consumer sales to record heights, exceeding \$119 million for four consecutive weeks. The prior record for the highest weekly Scratchers sales was \$118.6 million, set in early October 1985, the first week of Lottery sales, when only one Scratchers game

was on the market. This prior record level, which held for almost 35 years, is marked by a red line in the above chart. Scratchers consumer sales stayed above the summer levels through October and November. Sales during these months were 16 percent higher than they were during the same time last fiscal year before the pandemic. Finally, the Lottery brought in the New Year on a high note, with Scratchers sales once again breaking records. Starting with the last full week of December, weekly Scratchers sales jumped to over \$120 million and has stayed above that level for the past four weeks, and a new record for highest weekly Scratchers sales was set during the week ending January 2<sup>nd</sup>, 2021, with 132.5 million in Scratchers consumer sales. These sales were likely boosted by a couple of key factors, the first of which is the typical holiday gifting cycle. Each year, the Lottery experiences a spike in these Scratchers prize claims immediately following the Christmas holidays, as lucky Scratchers gift recipients turn in their winning tickets. As mentioned earlier, the consumer sales shown on this slide use claims to measure real-time consumer demand. As a result, each year, the weeks following Christmas have higher consumer sales due to the increase in gifts claimed. The second factor for higher-than-expected Scratchers sales is the increased foot traffic and press from the large multi-state jackpots, which will be discussed

on the next slide. These record sales have set up Scratchers to end the first half of the fiscal year 11 percent ahead of last year. The next slide, please.

As alluded to in the last slide, by mid-December, multi-state games; that is, Mega Millions and Powerball, had rolling jackpots over \$300 million each. By New Year's Day, Mega Millions was offering a jackpot of \$401 million, and the Powerball was slightly behind with a jackpot of \$384 million. At this time, jackpot fever officially set in, resulting in increased press and media exposure and exponential sales growth week over week. As the combined jackpots offered between the two games grew to \$990 million by January 9<sup>th</sup>, sales for the two multi-state games increased from \$30 million to \$54 million combined, a growth of 80 percent. These sales almost doubled again during the following week when Mega Millions' jackpot hit \$750 million, and Powerball's jackpot was \$640 million. Finally, last week's Mega Millions sales grew another \$27 million this week over week, coming in at almost \$85 million, as its jackpot rolled to \$1 billion for Friday, January 22<sup>nd</sup>. More importantly, between early September, when jackpots started rolling, through January 23<sup>rd</sup>, the estimated contributions to education generated from these two games totaled a remarkable \$197 million. It is also important to note here that the recent press releases from the Lottery's Public

Affairs and Communications Unit over this time reminded players to play it safe by only purchasing tickets during essential shopping trips and following all public health guidelines and recommending that players maximize their safety by minimizing their trips to the store by using resources such as the Lottery's mobile app to check their tickets or use Advance Play to purchase future draws at one time. These efforts and others by Lottery staff have encouraged responsible and safe play of the Lottery products during this time. Finally, as both Scratchers and the jackpot games go into the second half of the fiscal year with strong sales, the Lottery is on track to bring in more funds for education by the end of this year than in Fiscal Year 2019 and 2020. Once again, I want to thank the Business Planning and Research Unit for preparing this analysis and these remarks, and that is my report for today.

**CHAIR AHERN:** Well, Alva, those are some very impressive numbers you have there. I was seriously worried when COVID came to California and dealing with the outbreak, and I was worried that the Lottery wouldn't be able to keep up with the previous years, and even during COVID, the sales went extremely high over the anticipated rate. Your contributions to education -- is that seven percent? If this were private enterprise, you and your staff would be put in for a raise and promotions. So, but this is

government work, so you get nothing. So, anyway, great work by you and your staff. Really proud of you.

**DIRECTOR JOHNSON:** Thank you, Mr. Chairman. The team here at the Lottery has been working really hard to fulfill our mission. We have been impacted by COVID, but we keep our eye on the ball. Thank you very much.

**CHAIR AHERN:** Okay. I think we have Jim up next for a Review of the Fiscal Year '19-20.

**MR. HASEGAWA:** Yes, thank you very much. I have a slide deck as well if that could be put up. So, let me start with the background. So, as background for this analysis -- you can go to the next slide -- let me start by saying the COVID pandemic has profoundly impacted the nation and the world on multiple fronts. As such, it does make sense to analyze how it impacted our sales and contributions to education. Back on March 16<sup>th</sup>, counties in the San Francisco Bay Area issued stay-at-home orders in response to the growing presence of the virus. A statewide stay-at-home order was issued on March 19<sup>th</sup> by Governor Newsom. The pandemic and the ensuing responses to stem its spread impacted people and businesses, and the operations of the Lottery were no exception. Although many retail establishments that sell our tickets were deemed essential, like supermarkets, grocery stores, gas stations, drug stores and convenience stores, there were some locations that sell

Lottery tickets, like bars and restaurants, that were closed. All Lottery District offices were closed to the public, requiring players who won prizes of \$600 or more to only submit these claims by mail. Much of the Lottery's workforce was immediately migrated to working from their homes under an Emergency Telework Program. This included curtailing in-person services to our retailers over the last three-and-a-half months of Fiscal Year 2019-20. For staff whose work had to be conducted at the Lottery facilities, robust social distancing protocols were implemented. These requirements did pose unique challenges in the Lottery's two distribution centers, and this reduced production capacity and ability to fill Scratchers orders on a timely basis. As the pandemic was emerging and stay-at-home orders were being issued, the Lottery decided to postpone the launch of the series of PAC MAN-themed Scratchers games and their associated marketing campaign to better fit with the tone of the moment. As you know, the Lottery typically plans monthly introductions of Scratchers games. Instead, there was just one set of new Scratchers games being introduced between March and June of 2020. And in addition to the elimination of the PAC MAN advertising campaign, the last three months of the fiscal year saw suspension of another Scratchers campaign, as well as efforts to generate awareness of the Mega Millions and Powerball jackpot games

suppressed. So this study's analysis to measure the pandemic's impact on our sales was performed by Business Planning, with the Finance Division assessing the impact on our expenditures and contributions to education. Next slide, please.

The COVID-19 pandemic reduced total Lottery sales in the last fiscal year by an estimated eight percent. But I do want to point out that despite the pandemic's impact, sales across all products totaled more than \$6.6 billion, which still represents the third-highest amount in California Lottery history. And now we'll look at the sales impact by product category. Next slide, please.

For games like Powerball and Mega Millions and SuperLotto Plus, many consumers are motivated to buy a ticket after learning the size of the game's jackpot, and during the pandemic, there were fewer opportunities for people to see or hear about the jackpot, due to the suspension of these types of ads, fewer shopping trips being made where our signs display the amount, fewer casual conversations with co-workers, as many people work from home. So these types of changes could impact sales of these three games. We do have past data for prior Mega Millions, Powerball, and SuperLotto Plus drawings containing the jackpot amount and the corresponding sales information, and these were used to estimate what the sales impact would be

from the pandemic. The multi-state games of Powerball and Mega Millions each decided to lower their starting jackpots from \$40 million to \$20 million in response to the pandemic and lower product sales throughout the nation. So when we estimated sales for jackpots below \$40 million in this analysis, pre-pandemic sales from the \$40 million jackpots were used since the size of the starting jackpot would have stayed at this level if the pandemic had never occurred. As you can see, Powerball and SuperLotto Plus saw sales declines due to the pandemic estimated at six percent, with Mega Millions having a slightly greater decline at ten percent. All combined, the pandemic-induced sales losses for these jackpot games were estimated at more than \$70 million during last fiscal year. And I will say that I feel this projection represents a conservative dollar amount, since it is plausible the jackpots would have risen at a faster pace without the pandemic. After accounting for the sales declines associated with the pandemic, you may have noticed on this slide that these three games still did not reach their sales goal for the fiscal year. A key reason for the shortfall in Powerball and Mega Millions sales is the unusually low number of draws where the jackpot reached a level that generates significant press coverage and bigger interest by our consumers, particularly our infrequent players. Change the slide, please.

This chart shows last fiscal year had just one draw with a jackpot over \$400 million across Mega Millions and Powerball combined. In contrast, the prior three fiscal years averaged 14 draws of the jackpot that saw (inaudible) ranging from eight to as high as 22. So, I will say that the low number experienced last fiscal year was a statistically rare occurrence and is a major factor in explaining why these games performed below their respective sales goals. Just for your information, when the sales goals were developed for that fiscal year, we assumed 11 draws with a jackpot of \$400 million across the two games combined, kind of in line with the normal pattern. So, in summary, the combination of the sales impacting the pandemic and the one instance of having only one jackpot at that \$400-plus million range resulted in these games performing below goal. Next slide, please.

Turning to Scratchers, on top of many changes in our operations due to the pandemic discussed earlier, such as fewer game launches and issues in packing and shipping Scratchers to our retailers, the pandemic also reduced Scratcher purchases because of the need for many people to watch their finances more closely, reduced necessity to visit gas stations as often, and consumers consolidating their shopping trips. Unlike the analysis in the prior section, estimates for the impact of the pandemic on

Scratchers sales required multiple steps to account for all of those factors that I just listed and making this process a lot more complicated than for the jackpot games. Over the first month or so of the pandemic, declining consumer demand was the key driver behind lower Scratchers sales. You know, at this time, people were still adjusting to the societal changes brought about by the pandemic, and shopping trips were really dominated by people buying essentials. However, by May, consumer purchases of Scratchers began to climb, approaching pre-pandemic levels by the middle of that month. The Scratcher pattern of the decline and rebound that I just mentioned tends to mirror the pattern that's reported in U.S. Government data for all retail sales. Also, I want to note that in May, this data from the Census Bureau showed that non-core spending was driving the sales gains during that month. These included an 88 percent monthly increase in retail spending in the sporting goods and hobby category and a 50 percent gain for electronics. So it's very clear that consumers were now seeking entertainment, and for some people that meant buying Scratchers. Unfortunately, as this consumer demand rose, the Lottery didn't have the ability to meet this increased demand for product, due to challenges in the two distribution centers. This often left retailers with limited ticket inventory, with our data showing that many stores were dealing with out-of-stock situations for a

very large number of our Scratchers games, and this was compounded by the elimination of many new game introductions during the last few months of the fiscal year. So taking all of these different factors and piecing them all together, all of these pandemic-related issues combined, Scratchers sales for the last fiscal year were negatively impacted by an estimated nine percent. Next slide, I think. Yeah, you can see that on this slide.

So (inaudible). If the pandemic had not occurred, from that column, you can see Scratchers sales would have exceeded its fiscal year goal; it would have been about three percent ahead of goal. So with Scratchers accounting for the vast majority of Lottery sales, this product category has the greatest losses attributable to the pandemic on its dollar basis. In terms of the percentage decline, Scratchers was higher than many, but not all of our Lottery games. In terms of our other products, Hot Spot performed strongly at social retailers such as restaurants, bars and bowling centers, and these types of establishments were closed in response to the COVID-19 virus. As such, Hot Spot sales experienced the largest decline on a percentage basis at ten percent. At the other end of the spectrum, the Lottery's Daily Games had the smallest sales declines related to COVID-19, with a reduction of just one percent. And overall, going through the different products, that's

how we arrived at the conclusion that the pandemic reduced Lottery sales in the last fiscal year by a total of eight percent. Next slide. And the next one.

All right. In order to estimate what the Lottery's contributions to California Public Education would have been last fiscal year without the pandemic, adjustments to expenditures were calculated based on the projected sales that we just discussed and operating expenses that change in response to the pandemic. So many cost categories are directly related to our sales. So as our sales increase, prize expenditures, compensation to our retailers, and the costs associated with the game vendors must also increase. So for Prize expense, Finance used last year's actual prize payout percentage for each game and applied it to the new sales estimate. Similarly, the Retailer Compensation costs were computed by applying the percentage of the sales realized for each of the compensation categories last fiscal year to the new sales estimate. And for the Operating expenses, expenditures incurred solely because of the pandemic; for example, like various PPE items and contracts for deep cleaning, those were subtracted out from the actual Fiscal Year 2019-20 costs. However, items that would have been expended absent the pandemic were added again. The most significant adjustments in this respect were in the Marketing area associated with the previously discussed

campaigns that were either canceled or postponed over the last three-and-a-half months of the fiscal year. Next slide.

So after subtracting Prize Expense costs, Retailer Compensation, and Operating costs from the estimated sales in the scenario without the COVID-19 pandemic, the amount remaining represents what the Lottery would have given to public education. Next slide.

The pandemic-related issues reduced the Lottery's contribution to education by an estimated seven percent, as our total sales were depressed by about eight percent. However, even with those reductions, the Lottery still provided California public schools with more than \$1.5 billion last year. And I do want to note there have only been five fiscal years where the \$1.5 billion mark has been surpassed in the entire history of the Lottery. In terms of how the pandemic is impacting the current fiscal year, we have some preliminary thoughts on that but not necessarily specific numbers at this stage. Scratchers sales had some residual effects still in July and August and into early September. However, as you saw in the Sales Update provided by the Director, we have experienced strong sales in December and January, with some record-breaking weeks, at least when it comes to consumer purchases. As for the jackpot games, their sales have continued to be below pre-

pandemic levels throughout most of the current fiscal year, with a few notable exceptions during the past couple of weeks as the jackpots rose to dramatic levels. And so this concludes my presentation, and I can answer any questions you may have.

**CHAIR AHERN:** All right, thank you very much, Jim. Does any member of the Commission have questions for Jim?

**COMMISSIONER MILLS:** Chair Ahern, this is Commissioner Mills. I do have a question and a comment, if I may?

**CHAIR AHERN:** Go ahead.

**COMMISSIONER MILLS:** So, first I just want to express my appreciation for the two presentations by Director Johnson and by Jim. I really appreciate the level of data that's being shared and the trends and kind of the look-back on what happened and why and how did it impact us. That was really very informative and done in a really plain-English way that I think -- I could understand it, I think, you know, that, for the public to kind of consume and understand as well, so thank you for the data. I have a question about -- I wonder if, Jim, you could talk a little bit about how you guys use this data, this historical data to look forward as well, and if you guys are in the process of trying to do some forecasting for this year and how you

can use this kind of backward-looking data to look forward and anticipate adjustments that you guys may need to make this year and going forward to continue to maximize our contribution to education?

**MR. HASEGAWA:** Okay. Some of these early numbers and figures, we were working on them even in the last fiscal year toward the end of the year, and some of those factors were used in setting goals for this year. Interestingly enough, one example is in the Scratchers area. In the planning stages, in talking with the people within Sales and Marketing, it was kind of assumed, looking at how changes to our distribution and getting things to -- and adapt to the social distancing protocols, and so we can increase the delivery and flow of tickets to retailers, it was anticipated in the sales goals setting that by the second quarter, we would kind of get back to normal in that regard, and in actuality, as I kind of mentioned, by the end of September, which is the end of the first quarter, our distribution and our response with Scratchers seemed to get back to the pre-pandemic levels. So it actually -- we probably won't need to make too many adjustments within the current fiscal year because this type of data was, at least early signs of it, were being analyzed so that we could make a better goal for the current fiscal year. Now, obviously, we didn't have crystal balls back in April and May of 2019

because obviously, those goals were set without even knowing the pandemic could come about, but we did try and take all of this data at an early stage. May not have been ready for a presentation and all, but we used the preliminary findings to help us get back -- to come up with better goals. And we also were able to -- we'd have our sales representatives return to the field, and that also helped with the distribution because they can carry tickets as well, and that was also part of this kind of overall plan, because there's so many little steps that are involved into delivering sales for the Lottery and contributions for education.

**COMMISSIONER MILLS:** Thank you. Very helpful.

**MR. HASEGAWA:** Okay.

**CHAIR AHERN:** All right, Alva, next, I think we have the Overview of the Financial Analysis and Risk Management Unit, or Tyler.

**MR. CABRAL:** Yes. Thank you. Let me turn my little camera on here. Good morning, everybody. I'm --

**CHAIR AHERN:** Good morning.

**MR. CABRAL:** -- I'm pretty pleased to be here. So, yeah, my name is Tyler Cabral; I'm with the FARM unit, and the FARM unit stands for Financial Analysis and Risk Management. And FARM is a unit in Finance, and the original intention was to work solely on Finance projects, and we've

now blossomed into a unit that works on organizational topics, so today I'm going to go a little about some of the background in the unit, some stuff we're working on, and, yeah, just kind of cover some of the concepts and things we've been researching and some of the data we've been working with. So without further ado, I can hop right into it. Next slide, Mr. Ben. There we go.

So what are we trying to do? We are trying to reach \$10 million in revenues and \$2.5 billion in contributions to education. We're trying to develop research standards and journal-quality papers. We're creating actionable, data-driven reporting. We're fostering collaborative relationships between all divisions, and we are establishing a strong, creative, analytical, high-character culture. So, I like this slide because it really puts at the forefront what we're working towards, and I'll also preface it by saying we're working towards this. So we're certainly not there yet, but it's something we're constantly striving towards. And this not a FARM effort solely. This is something where we are assisting the organization in moving towards these goals. So, certainly not there yet, but, like I said, constant iteration, constantly working forward; we're working towards everything on this screen. And it sets the stage for me to go into the workflow and the concepts of the group a little bit more on

the next slide.

So, some background. As we know, 8142 really changed the landscape of how we do business. So there's just higher price points. There are more prizes. There are more retailers. There are more players. So there's really an onus on us as an organization to focus on things like maximizing profit and deriving value. So part of this is also ensuring we're managing our risk, both internally and externally, and one of the really great things about where we are right now is, more than ever we have access to tools that we just have not had. I mean, there are things that are on the big list now. So, reporting software, data mining tools, things like R, things like Databricks, and I'll talk a little bit more about those in some future slides, but right now, we're at this really interesting, pivotal point where there's just a lot of opportunity out there, and the great differentiator is your creativity and your ability to use these tools to take advantage of these opportunities. So I like to think of it as we're at this nexus of art and science and how you meld the two together and seek out these opportunities -- that really is what's propelling us forward. So, it segues nicely into my next slide here.

So the profit-based cost accounting, this is a project -- we've been working on this for, yeah, going on

five years now, and it was actually the brainchild of my boss, Mr. Corey Chappell, and the goal is to get all the information in the Lottery and third-party data, put it in a central place, develop our reporting tools and standards and abilities, and provide this information for everybody. And we are doing this to ultimately help people do their jobs better, make more, better-informed decisions and more timely decisions. When we talk about profit-based cost accounting, it's a little bit of a misnomer because we are focused on things like profit and revenues and minimizing costs, but we're also equally focused on minimizing risk, so it's things like embezzlement or fraud or understanding stolen tickets. So risk isn't even in its name, and so we just like to make sure that we give equal treatment compared to its more glamorous brother of maximizing revenues and profits. So this project has two big components, which are research and data and information, and the first thing I'm going to talk about is our research, on the next slide.

So, when we're performing research, we are answering questions asked throughout the organization, and these can come from anywhere. So we've had questions from the top down; we've had questions from actual staff in the field, and we are creating a framework that is foundational, so developing these research standards, developing analytical standards, journal-quality reports. We also want

to provide our work papers, and we believe in transparency, and why this is important is you want people to be able to correct your work and fact-check it and ultimately improve upon it as we go, so providing back-up documentation is big. The last thing on here is our workflow, which is we research, we provide a review, we provide recommendations, and then we provide follow-up. And the follow-up is really key because you want to perform a look-back and ensure how the changes you recommended, if what was made actually happened, and if not, ask yourself why. So, again, I'm not going to be so bold and say we're there yet in developing this completely, but it's something we're striving for, and it's something we're constantly working toward. So that moves us into our second component, which is the data and information, things like this. So this is the Sizzle, and when it comes to things like data and information, so I can say a bunch of really technical-sounding things, but when it comes to the crux of what we're doing, it's using data and information to answer questions and get at a truth. And the truth we're trying to get to we want to make available to everybody. And this is where knowing your tools and being creative really comes in handy. So what we're looking at is -- down at our little workflow down there is three of the tools we use. So on the first section, on the very left, is getting information from a relational database. The second

tool there is R and RStudio to perform an analysis. And the third box on the far right is our dashboard reporting. And when it comes to R, why I like working with R is, so RStudio, it's an academic-standard language for statistical output and analysis, and what it does is it allows for really fast processing of information, and you can do really complex things inside the box. So, whether you're replacing Excel-like functions or writing code for a Neural Net, you can do everything with RStudio. And it just makes it easy for -- I can write a script and share it. I can write a script, and people can come and fact-check it. They can borrow it. They can use it, and it also makes it easy for us to grab third-party data and import it in. So the real reason why I like R is, at the end of the day, production's the great equalizer, and what I mean by that is you can have a theory about anything and everything, but the only thing that matters is can you do it, and does it work? And with R, you can test out your theories pretty immediately and understand if it works or not. So what we're looking at, that on the screen is an actual solution to a question, and the question was, how do we determine retailer value? So when we think of something like retailer value, typically, we would go off of aggregate sales, and when you think of aggregate sales, the worry is are you over-weighting things like the type of retailer or the location? So now you're

getting into the philosophy of what retailer value is. Like, for instance, if I open up a flower stand on the corner somewhere, and I do nothing, I will get a baseline level of Lottery sales, but am I really adding any value? So what we did is, like -- what you're seeing on the screen is an actual model that takes in information, and it provides an expected value. So now what we do is you take actuals compared to expected value, and the difference is value over or under expectation. That's really what the retailer's providing. And it's not a perfect science, but it's getting us one step closer to that. And to kind of bring it all home, what you're looking at on the far right is the actual dashboard. So the dashboard distills all of our research down into a nice package for, you know, a sales rep could look at their retailer list and determine who do I need to go visit based off of underperforming retailers? Or a recruiter can look at retailer types that are overperforming and go seek them out when they're looking for businesses. So that's, in a nutshell, data and information to answer our question or reveal a truth, which in this case is what is a retailer's actual underlying value? So that's data information, and on this next slide is -- so this is probably the most near and dear to my heart, which is the ethos in the culture.

So with FARM, we have an atmosphere where we value

communication. We value opinions and people and being creative and expressing yourself, so, with no bad ideas in our unit. And we have a flat management style, which means everyone in FARM is part of a bigger -- a piece of a puzzle and something bigger, and this last one's really important to me. So we value things like character traits and being positive and, dare I say, there's a lot of love in the unit. A lot of it comes from me, of course, but there's just a lot of love there, and when you have that it's infectious. And what we want to create is, it's not something, a bunch of people coming to work every day, but it's people who come in and are part of a team, and they believe in something, and they're trying to build something bigger than them. So, you can have the best analysts and the best data and the best research, and you got all that stuff and the best in the world, but to have an atmosphere where people feel like they're valued, and they know someone's coming behind them believing in them, that's the glue that really brings everything together. So, and our last couple slides here before we wrap.

I can talk a little bit about what we're exploring. I'm talking a mile a minute; let me grab some water real quick. So these are some of the things we're working on, and there will be research and papers and all that stuff coming at the pipeline, so what I'm going to talk

about briefly right now is the concept of "neutral weeks." So when it comes to metrics, typically, you want your metrics to be explanatory or descriptive. So your metrics should describe something that happened, right, or explain something that's going to happen in the future. And when it comes to metrics, there's a concept of stability or stickiness. And you typically want to know if your metrics are stable or not, stable over time, and you can do this mathematically pretty easily, and it's good when your metrics are indicative of underlying performance. So, for instance, market share is really stable, and market share is the share of sales for, like, a DO, so Sacramento, you can pencil Sacramento in for, I think it's, like, roughly 14 percent of sales every year, year over year. It's good to know that intuitively, like, you can just put it on an Excel sheet and look at it and see, okay, yeah, we're about 14 percent, but it's even better if you could do it mathematically. And gaming (inaudible) is also something we work with, which is just the share of Scratchers and Draw sales of total sales, and that's also fairly stable. It's not as stable as market share, but it's also stable year over year. And it's like, well, why does that matter? If you are building a budget, if you're making projections, yeah, you typically want to know your stable metrics. And this is so fitting because "neutral weeks," when it comes to

jackpots. So when I did this presentation six months ago, of course I couldn't have predicted we'd have these big jackpots, but it's so apt because if you are -- let me back up. Big jackpots, as we know, (inaudible) sales, and they inflate sales, which is good, but if you are trying to get to our selling ability, to truly get at it, you want to pull those anomalous weeks out. Well, why? Because they're anomalous by nature. They're not indicative of true selling performance. And so what we do is we call something "neutral weeks." Any week of sales with a jackpot over a certain amount, you take out of your analysis just to give one extra slice of sales performance. So that is the concept of "neutral weeks," and something we work on. We've got one more slide here, and that about wraps us up.

And so, I'll go ahead and have some closing thoughts here. So I'm hoping everybody got a chance to see a little bit inside how we operate and stuff we think about. Again, we are moving this organization, and we're assisting in moving the organization towards our stated goals. Big on using research standards, developing them, using statistical tools to help the Lottery make better and more timely decisions. It's that nexus of art and science. It's thinking analytically as well as creatively and still in this foundational culture and ethos to maximize contributions to education and to really help everyone in

the Lottery do their jobs better and provide information. So, yeah, that wraps it up, and I'm very happy to have been here, and thank you guys, and I totally expect that in the coming months and year, I'll probably be back here sharing some of the stuff we're working on and some of the interesting things we've created and developed and built. So that wraps it up, and thank you.

**CHAIR AHERN:** All right, Tyler. I just have kind of two questions blended into one, is how much coffee do you drink, and what do you put in it?

**MR. CABRAL:** I purposely told myself to calm down because I get a little too animated, and I know that this -- I cannot help this; the hands start moving, and they just start operating, and I wish I could stop it, but when that train leaves the station, it's difficult.

**CHAIR AHERN:** I've never seen somebody so excited to talk about data in my life.

**MR. CABRAL:** You know, and that is -- that basically captures it. We are so excited, and I know that Nick's on the line, and my boss Corey is on the line, and I'm sure Corey is -- if his camera was on, he'd be dancing right now. We really are excited about what we're doing. There's a strong passion for the unit. Yeah, and it's contagious; it's infectious, and apparently, it really shows on screens. I guess that's a good thing, so.

**CHAIR AHERN:** It's very evident. All right.

**MR. CABRAL:** Yeah.

**CHAIR AHERN:** Commissioners, any questions?

**COMMISSIONER MILLS:** Chair, Ahern, this is Commissioner Mills. I do have a question for Tyler, if I may?

**CHAIR AHERN:** Yeah. Yeah, yeah.

**COMMISSIONER MILLS:** Tyler, I want to -- great presentation. I want to echo Chair Ahern's comments. You can hear and feel the passion that you have for your work, so thank you for your service to the Lottery --

**MR. CABRAL:** (Overlapping). That's good to hear.

**COMMISSIONER MILLS:** -- and your contributions to education. I loved the presentation in that you really started and you ended with a big "why" about what you and your team does for the Lottery and the tie-ins to our overarching Strategic Plan. I loved how you talked about the culture of your department, and I'm super-happy to hear you describe it as infectious, because it sounds like it's a great model, as that is one of our overarching goals is to really enhance the culture of the Lottery overall, and it sounds like you guys have nailed it in your department, so I hope that it is and continues to be infectious throughout the (overlapping).

**MR. CABRAL:** Well, I promise it's not -- in these times, I should really change that word. They did not say "infectious."

**COMMISSIONER MILLS:** But, yeah, maybe it's a poor choice.

**MR. CABRAL:** Have a different word choice. Probably not the best word, but okay.

**COMMISSIONER MILLS:** You talked about really balancing this kind of desire to maximize opportunity while also minimizing risk, and so a big part of what you guys do is kind of look for risk management opportunities, and I wondered if you could talk a little bit about kind of the cross-collaboration place between what you guys do in your department and maybe, like, what Internal Audit does. Is there any work that you guys do that might actually inform something that you guys might put a bug in the ear of Internal Audit about, hey, can you guys come check this out and do a little bit deeper dive, or other areas of risk management where you guys kind of cross-collaborate in your risk management work?

**MR. CABRAL:** Oh, yeah, I like this question. I tend to have a one-track mind, so Nick and Corey I'm sure will hop in if I miss something. So we are of course as Finance, we are more centric, like, profit, revenue, and retailer-centric. So we are things like -- one of the FARM

analysts is working on portfolio risk management, which is a report that's run, and it's trying to suss out retailers who have strange validations and particularly gambling instances. So we are looking at, like, embezzlement, fraud, stolen tickets, but our unit really does focus on organizational risk, and that's really the overarching theme of what we're doing. So we certainly want to partner with an Internal Audits, with (inaudible)'s group, with an ISO, where we can be working in tandem and really using, match, like the efficiencies of all the units who specialize in certain things. So while we are -- definitely retailer-risk is kind of what we've been focused on in the past couple years, organizational risk really is under our umbrella, and that's something we want to move towards. So cross-pollinating with a Business Planning, with Internal Audits, with an ISO, that's certainly on the horizon zone.

**COMMISSIONER MILLS:** Excellent. Thank you, Tyler.

**CHAIR AHERN:** All right, thanks.

**COMMISSIONER STERN:** This is Commissioner Stern. I did just have one comment, and Tyler, appreciate the overview. As I live in the world of information technology and software, and I've been part of these types of programs before, and running data-driven analyses, and I know our Information Management teams understand this very well, it's -- when you live in this world, and you're pulling all this

data together, the data is only -- if you put bad data in, you're going to get bad insights out, so what I would just recommend as part of your methodology, and it jumped out at me when you were talking about third-party data, just working with your partners in the Information Management team to make sure of the integrity of the data that you're pulling into your analysis. And I know this is something you probably already understand, but just wanted to echo that statement, and, but looking forward to learning more about your program over time.

**MR. CABRAL:** Oh, thank you for that, and I don't think you could ever not keep that on top of mind, what you just said, which is data integrity. So that was an excellent point and certainly something we need to continually, as an organization, keep in mind, so, yeah, I like that.

**CHAIR AHERN:** Okay. Thanks. Next item on the agenda is the Consent Calendar. There are no items under consent, so we'll proceed to Action Items. Turn it back over to Alva for Action Items, starting with 8a.

**DIRECTOR JOHNSON:** Thank you, Mr. Chairman. Mr. Hasegawa will present our Action Item 8a concerning our Communications Effectiveness Tracking Study Services Agreement. Jim?

**MR. HASEGAWA:** Yes, thank you. Alva, Mr.

Chairman, Commissioners. Item 8a is a contract amendment for the Communication Effectiveness Tracking Study. So, first off, I'll just kind of briefly kind of describe or refresh your memory on what the tracking study is and its purposes. It's a market research survey that is representative of all California adults. It measures the playership of Lottery games. It obtains the demographics of our players, and that's required in the Lottery Act. We also measure the awareness and attitudes of Lottery in our key games and changes to those metrics over time, as well as playership changes that may result from an advertising campaign, and that helps us determine its effectiveness. That's another item that's prescribed in the Lottery Act. We also monitor awareness and usage of other Lottery programs, like our website, our mobile app, our Responsible Gaming initiatives. So the current contract with Alter Agents resulted from a competitive procurement, was awarded by the Commission back in 2016, and it had a three-year term with two one-year extension options, and those were approved by the Commission in January of 2019 and November of 2019. An RFP for a new contract was released on December 9<sup>th</sup>, with proposals now due tomorrow. With surveys of California adults being conducted on a weekly basis and the importance of the data for assessing our performance and to aid in our planning, it's critical to have uninterrupted service and to

also ensure a smooth transition if a different vendor emerges from the current procurement. There are provisions in the existing contract to extend for these specific provisions, and staff is requesting an amendment to exercise these provisions, extending it from the contract's term by five months and two weeks to August 6<sup>th</sup>, 2021. No increases to the current contract expenditure authority are being requested, so the amount will remain at \$1.465 million, and then that will be sufficient to cover the additional time. According to Lottery regulations, if an extension does not exceed 25 percent of the original contract term or six months, whichever is shorter, then the Commission approval is not mandated. However, in the interest and spirit of full transparency and disclosure, staff is bringing this amendment for your approval. I can answer any questions at this time.

**CHAIR AHERN:** All right, does any member of the Commission have any questions for Jim?

**COMMISSIONER MILLS:** Chair Ahern, this is Commissioner Mills. I do have a question for Jim.

**FEMALE:** Keetha Mills.

**CHAIR AHERN:** Uh-huh. Go ahead.

**COMMISSIONER MILLS:** So, Jim, can you just confirm that this extension period that you're requesting, do you anticipate that being sufficient time to get through the

current RFP process and any transition time that might need to happen if there is a new vendor that happens to be selected through the process?

**MR. HASEGAWA:** Yeah, the current timeline -- and that's how we came up to such a -- you know, the timing is kind of very specific -- five months and two weeks, and so that's why I can assure you that it will meet all those. It looked at the current timeline of the RFP, with the responses coming in tomorrow, the evaluation period. The plan is to bring it to the Commission for review and approval at the March meeting, and then a contract will take place, so that will give us many months for the new vendor, if there is one, a totally -- a transition to develop the questionnaire, to develop their procedures, and to do what we call running a parallel study. So that way, both vendors, the current one with this contract, Alter Agents, and if there's a new vendor, a new contract, they'll be collecting data simultaneously, and then we'll be able to compare them to make sure that we have -- there's no differences in the information based on the vendor. And so this will be sufficient, looking at the timeline of the -- for an RFP, and tomorrow, responses are coming back, so we don't anticipate any end difficulties.

**COMMISSIONER MILLS:** Okay. And that actually leads to my second question. So I know we've had some

difficulties with some of our RFP processes in the past, either with folks not responding or responding in a way that doesn't really meet our needs, and I just wanted -- if you could speak to kind of your confidence in this particular RFP process and being a successful one, given that they're due tomorrow, in order to meet our deadlines.

**MR. HASEGAWA:** You know, we did have a response period for questions, and there were a number of questions, and that actually is the reason why the deadline was pushed back from what I wrote in the issue memo -- that was the original one -- because there were quite a number of questions from interested vendors that we had to respond to. So we do already have -- we know that there are people interested in this procurement. Also, the last time this procurement ran in 2016, we had many, many vendors to evaluate. There is a fairly large community and that this type of study is kind of called an AAU, and for some (inaudible) vendors, and it is a project that many vendors would vie for.

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

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

**CHAIR AHERN:** All right, any other questions from the Commissioners? Hearing none, does any member of the public want to address the Commission at this time regarding Action Item 8a? Hearing none, do I hear a motion to approve

Action Item 8a, Communications Effectiveness Tracking Study  
Services Contract Agreement?

**COMMISSIONER MILLS:** So moved.

**CHAIR AHERN:** We have a motion; is there a  
second?

**COMMISSIONER STERN:** Second.

**CHAIR 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 Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right, motion passes.

Thank you very much.

**MR. HASEGAWA:** Thank you.

**CHAIR AHERN:** We'll move on to 8b.

**DIRECTOR JOHNSON:** Thank you, Mr. Chairman. 8b  
concerns the extension of the KPMG Financial Statement Audit  
Contract. Our Lead for Internal Audits, James Shannon, is  
here to present. James?

**MR. SHANNON:** Thank you, Alva. Good morning,  
Chairman Ahern and Commissioners. As you may know, the

Lottery Act requires the Lottery to hire an independent firm to conduct an annual audit of accounts and transactions of the Lottery. Our current contract for independent financial auditing and related services with KPMG is scheduled to expire on March 29<sup>th</sup>, 2021. The Lottery is also required under Government Code Section 8880.46.5 to hire an independent contractor. The Code states that the Director shall engage an independent firm of certified public accountants to conduct an annual audit of all accounts and transactions of the Lottery. The audited financial statements shall be presented to the Commission, the Governor, the Controller, the Treasurer, the Attorney General, and the Legislature not more than 120 days after the close of the fiscal year. The Independent Auditor's Report shall be posted on the Internet. Our contract with KPMG has been in place since March 30<sup>th</sup>, 2016, following a competitive bid process that took place in 2015. Its term is for four years with options to extend for two additional one-year periods. The current maximum agreement amount is \$980,000. As previously mentioned, that contract term is set to expire on March 29<sup>th</sup>, 2021. Exercising the remaining one-year option to extend services through March 29<sup>th</sup>, 2022 will permit the Lottery to continue receiving assurances on its financial statements in prize liabilities from KPMG without interruption. In addition, the extension will allow

the Lottery time to prepare and process a formal Request for Proposal for a new contract in the coming year. Together with the extension of contractual services, additional funding will also be necessary. KPMG begins its Financial Services Review in June of each year. Its audit team performs primarily work while the Lottery staff prepares year-end financial statements. The audit team then performs and completes fieldwork in October. The completed and signed audited financial statements are provided to the various constitutional officers per the government code as stated above not more than 120 days after the close of the fiscal year. Subsequent to the completion of the financial audit, KPMG begins its review of the prize liabilities for the Powerball and Mega Millions games to assist the Lottery in meeting its reporting requirements with the party lotteries under the multi-state lottery agreement. These reports have a deadline for completion by December 31<sup>st</sup>. So in summary, the extension of time and additional funding will cover the following services: the 2021 Prize Liability Audit of Powerball and Mega Millions games, which is due on December 31<sup>st</sup>, 2021; the 2021 Financial Statement Audit due 120 days after the close of the fiscal year; the 2021 Comprehensive Annual Financial Report, also known as the CAFR, due 120 days after the close of the fiscal year. If the Lottery does not implement this extension, the

alternative would be to begin the RFP process immediately to seek another firm. However, this would pose a risk of interruption in the Lottery's financial audit services if a contract is not executed before the expiration of the current one, which is March 29<sup>th</sup>, 2021. Therefore, Lottery staff recommends that the Commission approve the option to extend the contract term by one year, from March 30<sup>th</sup>, 2021 to March 29<sup>th</sup>, 2022 and augment the available contract funds by \$250,000, bringing the maximum authorized contract expenditure authority to \$1,230,000. (Overlapping).

**CHAIR AHERN:** Thank you, James. Do any of the Commissioners have any questions or comments on Action Item 8b?

**COMMISSIONER MILLS:** Chair Ahern, this is Commissioner Mills. I do have a question.

**CHAIR AHERN:** Go ahead.

**COMMISSIONER MILLS:** So, James, thank you for the presentation. I wondered if you could talk a little bit about the plan for going through the RFP process? My understanding is that we had difficulty in the past of doing RFPs in this space and actually getting good responses, and so I wondered if you could talk a little bit about how you're preparing to go through the RFP process and steps you're taking to ensure that we get adequate responses to ensure we're getting best value and service in this area.

**MR. SHANNON:** Yes, thank you. Typically, the RFP process takes about approximately nine months to perform. With this current -- with the upcoming RFP for the Financial Services Audit Contract, we are building in an additional 30 to 60 days in the process to allow enough time for us to work with our Procurement and Services Unit on exploring more creative ways on increasing the number of responses we will receive to our solicitation. Hopefully, working with our new Procurement Services Unit, we will be able to increase the number of responses.

**COMMISSIONER MILLS:** That's great; thank you. And then can you also talk about -- my understanding is that KPMG has been with us for quite a while, maybe even beyond the last RFP process, and can you talk about the steps that are in place and the processes that are in place to ensure their ongoing independence, given their longevity with the Lottery?

**MR. SHANNON:** Yes. According to the AICPA, it is recommended that the managing partner on Audit Services be rotated once every five years, or a minimum of once every five years. KPMG has worked with us on rotating assignments for managing partners. As a matter of fact, a current manager was rotated in in July of 2019, so it's well within the five-year period.

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

**MR. SHANNON:** Welcome.

**CHAIR AHERN:** Any other Commissioners with questions? Hearing none, does any member of the public want to address the Commission at this time regarding Action Item 8b? Hearing none, do I hear a motion to approve Action Item 8b for the extension of the KPMG contract?

**COMMISSIONER MILLS:** So moved.

**CHAIR AHERN:** We have a motion; is there a second? Didn't hear a second.

**COMMISSIONER KIRTMAN:** Second.

**CHAIR AHERN:** We have a second. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right. The motion passes. Thank you very much. Alva, we'll move on to Action Item 8c.

**DIRECTOR JOHNSON:** Very good. Thank you, Mr. Chairman. Item 8c on today's agenda concerns an Amendment to the Microsoft Enterprise Licensing Agreement. Vincent

Espinosa is here to present.

**MR. ESPINOSA:** Good morning, Chairman. Good morning, Commissioners.

**CHAIR AHERN:** Good morning.

**MR. ESPINOSA:** At the January 2020 Commission Meeting, approval was given to enter into a three-year contract for Microsoft Enterprise Licensing with SoftwareONE for the amount of \$4,818,000, and the Lottery entered the contract in March of 2020. The contract provides three different Microsoft services. The first service is an Enterprise Office 365 subscription. The second piece is licensing for our servers, networks, and development tools, and the third piece is Microsoft Azure, that supports our Virtual Data Center and public website, to name a few. In November, the Lottery learned that the California Department of Technology was in negotiation with Microsoft to offer O-365 for a much lower price. This request is asking Commission approval to cancel the second and third year of the O-365 portion of the contract with SoftwareONE and obtain the subscription through the California Department of Technology's leveraged procurement. The other two services of the contract with SoftwareONE will continue until February of 2023. The California Department of Technology and Microsoft are scheduled to begin the service as of March 1<sup>st</sup>, 2021, so this fits right into what we have going on with

us.

The cost for O-365 through SoftwareONE is \$1.8 million for three years, and the cost being quoted for O-365 through California Department of Technology is approximately \$2.1 million for five years. It's the recommendation of the Lottery that we seek the better offer of O-365 through the California Department of Technology, and that's the "ask" today, and I can answer any questions you may have.

**CHAIR AHERN:** All right, thank you very much, Vincent. Does any member of the Commission have any questions for Action Item 8c?

**COMMISSIONER MILLS:** Chair Ahern, this is Commissioner Mills. I do have a question.

**CHAIR AHERN:** Okay, go right ahead.

**COMMISSIONER MILLS:** Vincent, thank you for the presentation. I was wondering if you could confirm, are there any penalties that we are subject to from the early cancellation of the contract or any other kind of legal concerns that we should be aware of due to the contract cancellation?

**MR. ESPINOSA:** I have been assured we will not. Microsoft has been working, and they've communicated with SoftwareONE, as I understand it, and our contract does allow us to seek the service somewhere different for a cheaper price in the event that it comes about. So I have not had

any legality issues come up about this or any questions from SoftwareONE at this time.

**COMMISSIONER MILLS:** Great. Thank you. And then I just want to commend you on your efforts to really leverage the overall purchasing power of the State of California in this effort and having your kind of eyes and ears to the ground to know that this was happening with one of your fellow State agency partners, and I really appreciate these efforts to drive down these everyday costs to maximize our contribution to education, so thank you.

**MR. ESPINOSA:** You're welcome. And just to note, we could probably get -- may get a little bit more of a discount if they have more subscribers through California Department of Technology, so, and this is a much better deal and better for our position. Thank you.

**CHAIR AHERN:** Any other Commissioners with questions? Hearing none, does any member of the public want to address the Commission at this time on Action Item 8c? Hearing none, do I hear a motion to approve Action Item 8c, Amendment to Microsoft Enterprise Licensing Agreement?

**COMMISSIONER MILLS:** So moved.

**CHAIR AHERN:** We have a motion; is there a second?

**COMMISSIONER KIRTMAN:** Second.

**CHAIR 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 Stern?

**COMMISSIONER STERN:** Abstain.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. The motion passes. Thank you very much. We'll move on to Action Item 8d, Digital Signature Technology.

**DIRECTOR JOHNSON:** Thank you, Mr. Chairman and Members. Action Item 8d concerns our DocuSign Digital Signature Technology Contract for those services. Mr. Espinosa will also present this matter. Vince?

**MR. ESPINOSA:** Thank you, Alva. The California State Lottery is requesting approval to enter into a one-year agreement to renew the subscription and support services for DocuSign Digital Signature Technology. Prior to the pandemic, the Secretary of State had on their website the requirements Digital Signature products should contain. They also listed suggested products to consider. Due to the pandemic, the Secretary of State had removed the approved Digital Signature product list from their website but left the functionality and security requirements a product should

meet. So the Lottery took action and performed a comprehensive analysis on six different products. Those products were DIGI Search, Entrust Data, Card Limited, GMO GlobalSign, MaxMD Park Avenue Capital, NotaryUs (phonetic) and DocuSign to define a product that identifies what technology requirements of Secretary of State meet the Lottery's business needs. The product that met all the Secretary of State requirements was DocuSign. Prior to the pandemic, the Lottery was going to initiate a pilot use of DocuSign for review and approval of certain documents for Lottery business. That effort was accelerated, and we began adding a broader scope of documents based on our business need. Prior to DocuSign, the process required individuals seeking review and approval to assemble a hard copy of all associated documents to be routed around for approval. This process could take days if not weeks, and sometimes the folders would be misplaced or sat on somebody's desk for a few days while they were on vacation. So what we have with DocuSign is a more secure and a more robust tool that actually gets the job done a lot quicker and sometimes within minutes, versus the days and weeks we encountered before. So it's the request of the Lottery to purchase a one-year subscription to DocuSign in the amount of \$268,000. The one-year contract will begin January 31<sup>st</sup> of 2021 and end on January 30<sup>th</sup> of 2022. And I can answer any questions you

may have.

**CHAIR AHERN:** All right. Thank you very much, Vincent. Do any of the Commissioners have questions regarding Action Item 8d?

**COMMISSIONER STERN:** This is Commissioner Stern. Just a couple quick questions as it relates to deployment. Is this an enterprise-wide deployment that it's all business functions that actually require digital signatures, or is this compartmentalized at all?

**MR. ESPINOSA:** It is -- well, I hope I answer this correctly. It's a Cloud-based solution, and it is enterprise-wide, so if anybody in the enterprise needs something to sign, and it doesn't require our web signature, and you're able to use this, we could utilize DocuSign for that, for the routing of that approval.

**COMMISSIONER STERN:** Right, yeah, I would imagine there's use cases in Sales, Marketing, Finance, et cetera, across the board, so thank you.

**MR. ESPINOSA:** You're welcome.

**COMMISSIONER MILLS:** Chair Ahern, this is Commissioner Mills. I also have a question. So, Vince, you talked about the robust review that was done when the contract was originally entered into, but it sounds like this one did not go through an RFP process, and I just wondered if you could talk a little bit about that, about

how this falls outside of kind of the RFP requirements for this type of service?

**MR. ESPINOSA:** You know, I don't really want to misspeak on this. I'm not sure when we did the -- or how we went about, but I believe it was because it may be a leveraged procurement practice that we are able to invoke here, and we don't have to go through the RFP process, and the recommendation of the Secretary of State that they had out there prior to the pandemic of the companies that we could look at and do an evaluation on. That's where we derived the names of the companies that we looked at.

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

**MR. ESPINOSA:** You're welcome.

**COMMISSIONER MILLS:** Just one other comment I would make is that is it these technologies -- well, first of all, like, I commend you for using this technology tool. It just increases efficiency like crazy and also helps manage risk as well, so I'm really happy to hear that you guys are leveraging this tool. These types of tools are also, like, evolving very quickly, and there are new players in the field, and so I know they're not easy to implement, but I would just encourage us to think about when the timing is right to make sure that we go back, at some point go back and do a more robust analysis of the tools that are available in this space and make sure that we're getting

best value and service for this activity.

**MR. ESPINOSA:** Noted, and that is a good point. And this is a positive out of the pandemic that we were able to automate this process for us, and to me, as your Chief Enterprise Risk Officer, it is a very much more secure way of routing things around the office and making sure that the right people only see it, so.

**CHAIR AHERN:** All right. Commissioners, any other questions? Hearing none, does anybody from the public want to address the Commission at this time regarding Action Item 8d? Hearing none, do I hear a motion to approve Action Item 8d, the Digital Signature Technology or DocuSign?

**COMMISSIONER KIRTMAN:** Motion to approve.

**COMMISSIONER STERN:** Move Action Item 8d.

**CHAIR AHERN:** We have a motion; is there a second?

**COMMISSIONER MILLS:** Second.

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

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right, that motion also passes. We'll move on to Action Item 8e.

**DIRECTOR JOHNSON:** Thank you, Mr. Chairman. I just also wanted to take a second to recognize and thank Mr. Espinosa for temporarily filling in as our Lead for Information Technology the last several months, and we are also pleased to indicate that we have a new Deputy Director of Information Technology Services who is onboarding this week, Jennifer Chan, and you'll be seeing her at future meetings. Moving on to the next item on the agenda, Action Item 8e. This concerns delivery of our Scratchers tickets. Sharon Allen will present. Sharon?

**MS. ALLEN:** Good morning. This is Item 8e, Scratchers Ticket Delivery and Return Services Contract. The Lottery's Contract for Scratchers Ticket Delivery and Returns is expiring on February 19<sup>th</sup>, 2021; thus, a new contract is needed. With Scratchers sales representing approximately 75 percent of Lottery revenue, this is a mission-critical service. Lottery ships Scratchers product from our two distribution centers to over 23,000 retailers throughout the State. This includes both daily maintenance orders as well as monthly new-game releases. Our current contract is with UPS, with a total expenditure authority of approximately \$58 million. The original contract term was

for five years, plus the Lottery exercised two one-year extensions. The Commission also approved two emergency extensions. To develop a new Request for Proposal, the Sales Support Distribution Team collaborated with representatives from other Lottery divisions, including Legal and Procurement Services. Additionally, they worked with Business Planning to survey industry standards and practices. A majority of the respondents used UPS exclusively, while a few other lotteries used other vendors, including FedEx and a specialized regional company in the Midwest, and some lotteries indicated they used a combination of vendors. The use of subcontractors was also surveyed, and the majority did not allow it. However, five did, and with one, only one requiring prior approval. During the RFP development process, Procurement Support Services recommended that an invitation for bid, or IFB, be released instead of a traditional RFP. The Lottery released an IFB on October 9<sup>th</sup>, 2020. However, on November 20<sup>th</sup>, the Lottery canceled the IFB because no responsive bids were received. On December 14<sup>th</sup>, a second IFB outlining Lottery's revised requirements was released. Of the three bids submitted, two were accepted, and the third was disqualified due to it being a conditional bid. The Evaluation Team reviewed each qualified bidder's references and performed a cost analysis to ensure the Lottery would receive the best

value. The bids were compared using completed number of orders for calendar year 2019. 2019 was selected because it was the last full year of shipping that was not adversely affected by the pandemic and thus was more indicative of future shipping needs for the Lottery. Unity Courier, Inc. was determined to be the successful bidder. Using Lottery's typical average retailer growth rate and parcel shipping growth history, the evaluation team determined that Unity will provide the best cost value to the Lottery. Unity's fixed-rate price schedule provided the lowest amount of shipping price increases over the life of the contract, the lowest initial price per parcel shipped, the lowest ending price per parcel shipped, and free return services. The Lottery staff recommends that the Commission approve the award of the Scratchers Ticket Delivery and Return Services Contract to Unity Courier, Inc. for a term of five years, with the option to extend the contract one additional year and with a maximum authorized contract expenditure authority of \$48 million. And with that, I'd be happy to answer any questions.

**CHAIR AHERN:** Okay, do any Commissioners have any questions regarding Action Item 8e?

**COMMISSIONER MILLS:** Chair Ahern, this is Commissioner Mills. I do have a question.

**CHAIR AHERN:** Go ahead.

**COMMISSIONER MILLS:** So, Sharon, hi. Thanks for the presentation, and I really appreciate the information and the detail around kind of the RFP process or Request for Bid for process -- I can't remember what you called it -- but the process that you went through to procure this particular contract. It sounds like we kind of hit a snag in this process as well, and you had to -- we didn't receive respondents, and so we had to re-issue, and I wonder if you could just talk a little bit about that, about, like, what the major differences were between what we originally put out and now what we're awarding, and maybe the lessons you learned, like, why did people not respond, and what did we do to kind of learn what we needed to adjust to have a successful process, and then maybe how that will inform future processes? I know the RFP process is not an easy one, and it's super-time consuming and expensive, and so what I'm thinking you can talk a little bit about is, like, what we're learning from these experiences and how we're applying them to future processes to make this much more kind of seamless and cost effective for the agency?

**MS. ALLEN:** Sure. I think in general, an RFP depends -- and we've heard from several today, and we have several in Sales and Marketing that we've done for contracts -- it depends on what the services are, and one thing, though, that's in common is some of these contracts were

first developed many years ago or have gone for five or seven years, and there's such a change in dynamics, and looking at this one specifically, the shipping industry has exploded and changed and evolved over the time in the length of the contract. And that's what was the first snag is understanding how those evolutions have impacted Lottery, and that's where researching into other lotteries, how they handle it, as well as just in general, best practices, and in doing that, and this is where, in general, as we talked earlier in Procurement Services, and the Operations Division has been looking at our processes in general, and they identified that once we knew what our specific requirements were, it was more effective to switch to that IFB because bidders had to meet those qualifications, and that became much more efficient. And then after we went to that, and we ran into that other snag with not getting responsive bids, additional research went into that, and we determined that there were some issues in the original IFB surrounding the length of the term of the contract. So we reduced that from seven to five years and only had one extension instead of two, which was the original term, as well as allowing subcontracting only with Lottery's written pre-approval, so putting in a little bit more flexibility allowed us to get those additional bids, and I think that pre-research is really key in order to allow us to effectively attract as

many bidders as possible. We want to make the Lottery an attractive company, organization to do business, so we can get the best, the best services, the highest quality, and so it's that balance. But we also have to recognize they're in the business to make money, too, right, and figure out how that partnership can work. And so with each of these, that advance research through best practices in the industries, working with our partners within the Lottery, as well as external through trade journals or talking about their lotteries or other folks, I think really makes that difference because by the time we release an RFP or IFB, we've done a lot of that vetting. In this case, we learned a little bit more, but that thoroughness I think will make us more effective in attracting a wide variety of bidders and getting the best quality vendor partners that will meet our needs at the right price, of course.

**COMMISSIONER MILLS:** Excellent, thank you. Thank you, Sharon; that was very helpful.

**CHAIR AHERN:** All right, any other questions from the Commissioners? And for formalities, does any member of the public want to address the Commission at this time regarding Action Item 8e? Hearing none, do I hear to motion to approve Action Item 8e for Scratchers Delivery and Return Services Contract?

**COMMISSIONER STERN:** Motion to approve 8e.

**CHAIR AHERN:** We have a motion; is there a second?

**COMMISSIONER MILLS:** Second.

**CHAIR 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 Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right, that motion passes

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**MS. ALLEN:** Thank you.

**CHAIR AHERN:** -- and now we're moving on to our last action item; it's 8f for Fiscal Year Vehicle Procurements.

**DIRECTOR JOHNSON:** Thank you, Mr. Chairman. Our Deputy Director of Operations Tiffany Donohue will present this item. Tiffany?

**MS. DONOHUE:** Thank you, Director Johnson. Good morning, Commissioners.

**CHAIR AHERN:** Well, good morning.

**MS. DONOHUE:** I will present Item 8f, requesting

approval from the Commission to procure 57 vehicles to add to the Lottery's current fleet of vehicles. At its June 2020 meeting, the Commission approved, as a part of the Lottery's budget, funding for the purchase of replacement and new vehicles. Historically, the Lottery replaces vehicles that meet a certain mileage threshold or where repairs are too costly and exceed the current value of the vehicle. Vehicles are also purchased to support new staff whose primary job functions are in the field. This year's request includes 49 replacement vehicles and eight new vehicles for an amount of \$1,498,267, plus the applicable tax at the time of purchase. In its original projections for this fiscal year, the Lottery anticipated the need for 104 vehicles, but because of limited field activities due to COVID-19, many of those vehicles never reached the replacement mileage criteria. Additionally, due to supply chain and manufacturing disruptions also related to COVID-19, the Lottery is unable to source all the types of vehicles that we typically utilize in the field prior to the end of this fiscal year. So those vehicle purchases will be put off until next fiscal year in the hopes that those disruptions will have been solved by then. So, in summary, this agenda item is seeking Commission approval to purchase 57 vehicles for \$1,498,267 plus the applicable tax at the time of purchase, and I'd be happy to answer any questions

you may have.

**CHAIR AHERN:** All right, thank you, Tiffany. Does any member of the Commission have any questions regarding Action Item 8f?

**COMMISSIONER MILLS:** Chair Ahern, this is Commissioner Mills. I do have a question.

**MS. DONOHUE:** Okay.

**COMMISSIONER MILLS:** So, thanks, Tiffany for the presentation. We've been hearing a lot about the move, especially in California, but also nationally, to more fuel-efficient and even electric vehicles, and so I wondered if you could talk a little bit about the analysis that the Lottery did and the types of vehicles that are being procured and how that kind of environmental responsibility, being good stewards in California, how that lens was applied to this particular purchase?

**MS. DONOHUE:** Yes, that's an excellent question, Commissioner Mills. The Lottery's fleet program does regularly assess the environmental impacts of the vehicles that we purchase in consideration of the business needs of the program, and how we primarily source our vehicles is consistent with the State of California Department of General Services Green Program. They have several leverage-procurement agreements in place in which State departments can source different types of vehicles to meet their needs.

And so consistent with the State's initiatives and the Governor's desire to reduce climate impacts, there are a lot of vehicles that we are able to source that are environmentally friendly. On this particular procurement for this year, of the 57 vehicles that we will be purchasing, 40 of those are hybrids. Those are our sedan vehicles. They are classed "fuel efficient." One area that sometimes we are not as successful in getting the most fuel-efficient vehicles are the cargo vans or the vans that field staff use for carrying materials. However, the manufacturers are doing a really great job of expanding those types of vehicles, fuel-efficient and hybrid vehicles, so we're hopeful in future years that we will be able to source more of those. And so I guess the short answer to that is that we really do weigh the environmental impact with our business needs. We have to source vehicles that will meet the business needs, but environmental impacts are very important to the Lottery, and so that is a major factor.

**COMMISSIONER MILLS:** Thank you. That's super-helpful. I would just add, I would just encourage us to really set the bar high in that regard and really hold ourselves to high standards to set the, you know, be the gold star as it relates to these vehicle procurements and the environmental footprint that we're leaving in our work.

So thank you for that explanation; that was very helpful.

**MS. DONOHUE:** You're welcome.

**CHAIR AHERN:** Any other Commissioners with questions for Action Item 8f? Hearing none, once again, do we have any members of the public who want to address the Commission at this time regarding Action Item 8f? Hearing none, do I hear a motion to approve Action Item 8f for Fiscal Year Vehicle Procurements?

**COMMISSIONER KIRTMAN:** Motion to approve.

**CHAIR AHERN:** Well, very excited, a motion to approve by Nate.

**COMMISSIONER STERN:** Second.

**CHAIR AHERN:** And a joyful second from Peter. We have a motion and a second. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right, our motion passes. Thank you very much, Alva. That takes care of our action items. Next on the agenda is Commissioners General

Discussion. Do any of the Commissioners have anything they'd like to bring up at this time? Hearing none, we have Item Number 10, which is we have tentatively scheduled our Commission Meetings for March 25<sup>th</sup>, for May 27<sup>th</sup>, and June 24<sup>th</sup>, 2021. I hope that meets everybody's calendars. Okay, next we have Item Number 11 which is Public Discussion. I was informed we don't have any public discussion, but I'll give a minute if anybody in the public wants to make any comments at this time. Okay, hearing none, Alva, do you think we're done?

**DIRECTOR JOHNSON:** Yes, sir. I think we are.

**CHAIR AHERN:** And Elisa, do you think we're done?

**MS. TOPETE:** I think we're done.

**CHAIR AHERN:** Okay, we'll adjourn. Thank you very much. You guys, you all be safe from -- avoid the weather, be safe out there. Thank you.

**COMMISSIONER MILLS:** Thanks, everyone.

**COMMISSIONERS:** Thank you.

**DIRECTOR JOHNSON:** Thank you.

**CHAIR AHERN:** Enjoy the rest of the day.

**MALE:** Thank you.

**FEMALE:** Bye. (End of Recording)

**(MEETING ADJOURNED)**

