

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – November 9, 2023

Sacramento, California

1. Call to Order

Chairman Gregory Ahern called the meeting of the California State Lottery Commission to order at 10:00 a.m.

2. Pledge of Allegiance

Chairman Ahern led the Pledge of Allegiance.

3. Roll Call

Chairman Ahern asked Elisa Topete to call the roll.

Commission Members Present:

Chairman Gregory Ahern

Vice Chair Keetha Mills

Commissioner Tiffani Alvidrez

Commissioner Alexandre Rasouli

California State Lottery staff and presenters:

Alva Johnson, Director

Fernando Aceves, Chief Counsel

Chris Fernandez, Deputy Director of Human Resources

Shauna Pompei, Culture and Engagement Manager, Human Resources

Sharon Allen, Deputy Director of Sales and Marketing

Nicholas Buchen, Deputy Director of Finance

Jennifer Chan, Deputy Director of Information Technology Services

Elisa Topete, Assistant to the Commission

Rebecca Estrella, Recording Secretary

4. Consider Approval of the Agenda

Chairman Ahern stated that he was notified by staff that Action Item 8(g) – Uniformed Security Guard Services Contract, was being removed from the agenda and tabled to a future meeting. He asked if the Commissioners had any additional changes to today's agenda. Commissioner Mills made the motion to approve the amended agenda and was seconded by Commissioner Alvidrez. The agenda passed unanimously.

5. Approval of the Minutes

Chairman Ahern asked if there were any additions or corrections to the September 19, 2023, minutes. Commissioner Alvidrez made the motion to approve the

minutes of the September 19, 2023, Commission Meeting and was seconded by Commissioner Rasouli. The minutes passed unanimously.

6. Informational Items

a. Director's Comments

Director, Alva Johnson, stated that total sales for the first 18 weeks of fiscal year 2023 are over \$3 billion, which marks the fastest the California State Lottery has reached the \$3 billion threshold in its history. Scratchers[®] are also hitting records, as cumulative sales are already over \$2 billion. Between Powerball[®] and Mega Millions[®], there have been nine draws offering players jackpots of \$1 billion or higher and both games are significantly above goal. Sales for SuperLotto Plus[®] are nearing \$100 million and are exceeding expectations this year.

Hot Spot[®] and the Daily Games each have sold roughly \$135 million so far this year and are meeting their respective goals. The Daily Games have had a slightly slower start than last fiscal year due to smaller grand prizes offered for Daily Derby[®]. Hot Spot continues to trend upward year-over-year, setting records of its own for the start of this fiscal year.

Director Johnson also went over the profit summary and industry sales and provided highlights from the Fiscal Year 2022-23 industry update. He concluded by stating that the estimated contributions to education continued to be the 3rd highest in the nation with \$2.24 billion.

Commissioner Mills asked if the budget that was passed in June will now be in full compliance with all of the rules and regulations given the recent sales results. Director Johnson responded that staff prepares the yearly budget by making our best and most reasonable and conservative estimate of sales projections, in accordance with California law and Lottery regulations. It is too early to say at this time whether it will be achieved this fiscal year, but he said that the Lottery is on a good track.

Commissioner Mills asked if staff had any insights into what is causing the large jackpots which are driving the sales. Director Johnson stated that there have been recent changes over the last ten years that have changed the odds somewhat here and there. Nationwide, lotteries try to provide an attractive product that can motivate sales in a responsible way. People gain greater interest in the Lottery and the variety of products, which ultimately drives sales which benefit our beneficiaries. Chairman Ahern thanked Lottery staff for their hard work in bringing in the multi-state games, which added to the Lottery's success, which adds to the contributions to education.

b. Audit Committee Update

Vice Chair Keetha Mills stated that the Lottery's Audit Committee role is to assist the Lottery in fulfilling its oversight responsibility relating to the integrity of the Lottery's system of internal controls, the performance of the audit function, and compliance with laws and regulations. The committee meets quarterly and every year, they are required to review the Audit Committee Charter and the charter that relates to the Internal Audit function at the Lottery. The Internal Audit group puts together a plan every year which includes a Risk Assessment across the organization and then develop a plan for internal audits over the next 12 months. Ms. Mills provided a description of what the committee has been working on the last year.

Commissioner Mills stated that the Lottery is a multi-billion-dollar organization, and it is important that staff are good stewards of these funds so that as many funds as possible can go towards education. The function of Internal Audits ensures that the Lottery is a well-run organization and that every dollar possible is going towards supporting education in California. Ms. Mills thanked Commissioner Garrison-Engbrecht for his partnership in the committee and Deputy Director Sara Sheikholislam for her leadership over the Lottery's Internal Audits Unit.

c. Mission, Vision, Values (MVV), The Journey to Launch

Deputy Director of Human Resources Chris Fernandez and Shauna Pompei, Culture and Engagement Manager in Human Resources, presented an overview of the launch of the Lottery's Mission, Vision, and Values (MVV). The MVV was launched in September, and it continues to be a critical initiative for the Lottery. Having the written and formalized MVV provides clarity for employees, reinforces the mission, and is constructive for the Lottery's recruitment and retention efforts. Ms. Pompei shared some future steps to continue to make MVV meaningful, memorable, and manageable.

Commissioner Alvidrez thanked the entire team for launching the five-year program. She stated that the MVV starts at the top with the Director who models the top values, which then permeates throughout the organization. She appreciated the high participation of Lottery staff who completed the Engagement Survey. The surveys let the organization keep an eye on overall morale and helps management get ahead of any potential issues. She looks forward to the Lottery implementing consistent and frequent surveys.

Commissioner Mills was also very pleased with the launch of the MVV program. She stated that even through the pandemic, staff stayed focused and pushed forward with the Employee Survey which will have an impact on the overall culture and employee happiness at the Lottery.

7. Consent Calendar

8. Action Items

a. Scientific Games LLC Instant Ticket Printing Contract Extension

Sharon Allen, Deputy Director of Sales and Marketing, requested the Commission to approve a contract extension and additional funding to extend the contract to November 30, 2024, as the current contract is set to expire on November 30, 2023. Scientific Games is the primary vendor for instant tickets (Scratchers) production.

Commission Mills asked if the pricing for this contract was set in the original contract and carried over. Ms. Allen stated that the contract terms and pricing remain the same for this contract. Ms. Mills asked if staff was in the Request for Proposal (RFP) process and if the Lottery expects any significant price increase into the future as a result of coming to the end of the contract term. Ms. Allen responded that staff is developing the RFP and is performing industry and market research so that they may release the RFP in advance. With this action, they won't have to exercise the one-year extension. Staff is looking at both parallel tracks right now – either go with the RFP or go with another extension.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(a). No one came forward, so he proceeded to the motion.

Commissioner Mills made the motion to approve Action Item 8(a) and it was seconded by Commissioner Rasouli. The motion passed unanimously.

b. Pollard Banknote Limited Instant Ticket Printing Contract Extension

Sharon Allen, Deputy Director of Sales and Marketing, requested the Commission to approve a contract extension and additional funding to extend the contract to November 30, 2024, as the current contract is set to expire on November 30, 2023. Pollard Banknote is a secondary vendor for instant tickets (Scratchers) production.

Commission Mills asked if there was anything different in the pricing of this contract that the Commission should know about. Ms. Allen answered that the pricing is the same and that there were no changes in the extension.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(b). No one came forward, so he proceeded to the motion.

Commissioner Mills made the motion to approve Action Item 8(b) and was seconded by Commissioner Rasouli. The motion passed unanimously.

c. IGT Global Solutions Corporation Instant Ticket Printing Contract Extension

Sharon Allen, Deputy Director of Sales and Marketing, requested the Commission to approve a contract extension to November 30, 2024, as the current contract is set to expire on November 30, 2023. IGT Global is a secondary vendor for instant tickets (Scratchers) production.

Commissioner Mills ask how all three instant ticket printing contracts work together and how does staff know which one to use for what. Ms. Allen responded that Scientific Games is the primary contract, so a majority of the games are with them, but each has unique games and unique features, whether that is exclusive license properties or specialties in which they excel. Another factor depends on the schedule. Because California is such a large state with a lot of games, a particular vendor may not fit a game within the Lottery's schedule. Staff looks at how the Lottery can provide the best mix that will maximize sales and also reach a variety of different players, as not all players like the same type of games. There are a wide variety of games and each vendor plays an important role because they don't all offer the same thing. The same product types exist, but all have different game themes, different features and opportunities. Thus, by having all three vendors, staff can build the best plan for California.

Commissioner Mills asked what type of strategies will be used in the RFP process to ensure that the Lottery will be getting the best price, knowing that these are the only vendors in the world who do this type of work. Ms. Allen explained that staff is looking across the lottery industry to gain an understanding of what other states are doing. They are also talking to colleagues in other jurisdictions so that the staff can build a competitive RFP that can yield the best pricing for the Lottery.

Chairman Ahern asked how the three vendors provide printing materials to the Lottery. Ms. Allen stated that the three vendors ship them to the Lottery's two distribution centers each month. Thereafter, the Lottery releases new games which are shipped to every retailer on an ongoing basis. When they need to be replenished or get additional games, they are sent from either the Northern or Southern Distribution Center.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(c). No one came forward, so he proceeded to the motion.

Commissioner Mills made the motion to approve Action Item 8(c) and was seconded by Commissioner Alvidrez. The motion passed unanimously.

d. Workiva Wdesk Software Subscription Extension

Nicholas Buchen, Deputy Director of Finance, requested Commission approval to exercise the first of two one-year Agreement extensions to continue use of the Workiva Wdesk software subscription through December 28, 2024. The Finance Division has used the Workiva Wdesk software subscription to produce financial reports such as the Lottery's annual budget, Annual Comprehensive Financial Report, Popular Annual Financial Report and various associated reports and backup material.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(d). No one came forward, so he proceeded to the motion.

Commissioner Alvidrez made the motion to approve Action Item 8(d) and was seconded by Commissioner Rasouli. The motion passed unanimously.

e. Workstation Enterprise Refresh Plan

Jennifer Chan, Deputy Director of Information Technology Services (ITSD), requested Commission approval to purchase new devices to refresh existing department-wide desktops, laptops, and 2 in 1 devices over a three-year period via a Workstation Enterprise Refresh Plan.

Chairman Ahern asked if the Lottery was obtaining a state price for the tablets and computers and if staff was using the same devices that other State entities use. Ms. Chan stated that the Lottery chooses from a list of pre-approved devices that are on a mandatory state contract that is managed by the Department of General Services. When the Lottery buys the devices, staff leverages the power of the statewide contracting process, however the devices will be evaluated to determine which devices specifically meet our needs. Commissioner Alvidrez thanked Ms. Chan for the Refresh Plan which paints a good picture of the rolling replacement schedule.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(e). No one came forward, so he proceeded to the motion.

Commissioner Alvidrez made the motion to approve Action Item 8(e) and was seconded by Commissioner Rasouli. The motion passed unanimously.

f. Epicor – Lottery Financial System Contract Renewal

Jennifer Chan, Deputy Director of ITSD, requested Commission approval of a new contract with Epicor for software and hosting services with a four-year term beginning December 4, 2023, and ending December 23, 2027. The Lottery has utilized Epicor software and services to run its financial system since 1999.

Commissioner Mills asked how the different technology tools are managed, since some IT contracts are brought to the Commission from, for instance, the Finance Division and some are from ITSD. She asked if there as a collaboration between divisions as far as how they are managed or if they are managed primarily through the IT Division. Ms. Chan answered that if anything touches the Lottery's network or systems, whether it is intervention by the ITSD staff, those procurements will run through ITSD to ensure that there is no impact to the Lottery's infrastructure, environment, or security. Other IT procurements, such as the one presented by Mr. Buchen, is called a "software as a service" product, where there is little to no intervention by the IT staff. If they have any issues with the software, Finance will reach out to the vendor service desk directly. There is an IT acquisition policy in place that requires any IT type of procurement to come through IT for review and approval. This is done to ensure products meet the security requirements and to make sure there is no potential impact to the existing environment.

Commissioner Mills asked that, when staff begins to implement the Enterprise Resource Planning (ERP) solution, which could result in a huge, expensive project, that ITSD keep the Commissioners educated on the process so that when they are asked to approve a contract, all Commissioners will know that this will be a well-run, well-controlled, efficient organization.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(f). No one came forward, so he proceeded to the motion.

Commissioner Mills made the motion to approve Action Item 8(f) and was seconded by Commissioner Alvidrez. The motion passed unanimously.

9. Commissioner General Discussion

Chairman Ahern asked if the Commissioners had anything they would like to discuss.

10. Scheduling Next Meetings

The next Commission Meetings are tentatively scheduled for January 25, March 21, May 23, June 27, September 26, and November 21, 2024.

11. Public Discussion

For Public Discussion, Chairman Ahern sought public comments or questions. No one came forward so he proceeded with the next agenda item.

12. Adjournment

Meeting adjourned at 11:08 a.m.