

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – May 28, 2020

Sacramento, California

Recording of meeting started at the motion of approval for Action Item 8(a).

1. Call to Order

Chairman Gregory Ahern called the meeting of the California State Lottery Commission to order at 10:00 a.m. The meeting was held via Microsoft Teams and teleconference.

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
Commissioner Nathaniel Kirtman
Commissioner Peter Stern
Commissioner Keetha Mills

California State Lottery staff and presenters:

Alva V. Johnson, Director
Fernando Aceves, Chief Counsel
Nicholas Buchen, Deputy Director of Finance
Shameil Jones, Assistant Deputy Director of Security and Law Enforcement
Roberto Zavala, Deputy Director of Internal Audits
Sharon Allen, Deputy Director of Sales and Marketing
Jon Schlusser, Deputy Director of Information Technology Services
Jim Hasegawa, Deputy Director of Business Planning
Elisa Topete, Assistant to the Commission

4. Consider Approval of the Agenda

Chairman Ahern asked if any of the Commissioners wanted to make changes to the May 28, 2020 proposed agenda. Commissioner Mills made the motion to approve the agenda and was seconded by Commissioner Kirtman. The agenda passed unanimously.

5. Approval of the Minutes

Chairman Ahern asked if there were any additions or corrections to the January 16 and March 30, 2020 minutes, which would be voted on separately. Commissioner Mills requested minor wording changing on the January 16th meeting minutes and asked that there be greater care to ensure the minutes

generally summarize questions and comments by the Commission and be carefully reviewed for grammatical errors. Commissioner Mills made the motion to approve the amended minutes for the January 16th Commission Meeting and was seconded by Commissioner Kirtman. The minutes of the January 16, 2020 Commission Meeting passed unanimously. Commissioner Stern made the motion to approve the minutes for the March 30, 2020 Commission Meeting and was seconded by Commissioner Mills. The minutes of the March 30, 2020 Commission Meeting passed unanimously.

6. Director's Report

a. Director's Comments

Director Alva Johnson presented the total Lottery sales through May 16, 2020 and provided a product sales update. The Lottery anticipates closing Fiscal Year 2019-20 with approximately \$6.6 billion in sales and \$1.5 billion in supplemental funding for public education. This year's shortfall in sales is due to a combination of the impact from the COVID-19 pandemic and a year with abnormally low jackpots. Over the first two weeks of May, each game saw continued improvements compared to prior weeks. However, sales are still 15-25% lower than pre-pandemic sales levels.

Director Johnson then gave an overview of the Lottery's response to the COVID-19 health crisis. He stated that the Lottery's top priority has been the health and safety of its employees, retail partners, and the general public. The Lottery acted swiftly by closing district offices, suspending field operations, and quickly established a telework program. He shared that the Lottery made operational adjustments in real time in response to the pandemic. The Lottery has adopted a robust social distancing protocol modeled according to state and workplace safety guidance. The Lottery continues to operate and adjust its operations to protect the safety and well-being of its staff, retailers, and the public in order to continue our monetary contributions to public education.

b. Draft Fiscal Year 2020-21 Budget

Deputy Director of Finance, Nicholas Buchen, provided an overview of the Lottery's draft budget for the 2020-21 fiscal year which begins on July 1. This year's budget development process was more intricate than in the past, as the entire operational budget was developed from the ground up, a business practice commonly known as zero-based budgeting.

Due to the impact of COVID-19, certain retailers selling Lottery products have had to temporarily close their businesses, therefore, many customers have been making fewer trips to stores and have been more focused on purchasing necessities. Few people are commuting and gathering at the proverbial water cooler, resulting in fewer triggers to play the big jackpot games. Additionally,

Lottery Scratchers[®] distribution was backlogged, as the number of staffs simultaneously packaging tickets for distribution were limited to allow for proper social distancing.

There has been recent recovery and stabilization in the sales of many of the Lottery's games. The Lottery's Business Planning Division provided a revised sales estimate for the coming fiscal year. Staff subsequently determined the associated prize expense, which allowed for the retailer compensation and gaming cost estimates to be completed, since these are largely dependent on sales.

Sales from the Lottery's products minus the associated prize expense minus the administrative expenses equals our contribution to education. Sales are projected to be a total of \$6.78 billion in the draft 2020-21 budget. This is an increase of more than \$137 million from the predicted sales level, resulting in a modest year-over-year increase of 2.1%. The primary driver of this projected increase is due to the sale of Scratchers.

Both unclaimed prizes and interest earnings on any remaining cash within the State Treasury are mandated to be transferred directly to education. Assuming both reserves remain unspent, the total projected contribution to public education is estimated to be \$1.53 billion in 2020-21. Approximately 95 cents out of every dollar the Lottery brings in is returned to the public in the form of prizes paid to our players, funding for public education and compensation paid to retailer partners.

7. Consent Calendar

8. Action Items

a. Ratification of the Emergency Six Month Contract Extension with Stanley Convergent Security Solutions, Inc.

Assistant Deputy Director of Security and Law Enforcement, Shameil Jones, presented a request to the Commission for the ratification of the contract extension with Stanley Convergent Security Solutions, Inc. (Stanley). To ensure that critical services were maintained, the Lottery exercised its contractual option to extend the security systems services contract with Stanley on April 27, 2019.

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 of approval.

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

b. Lottery Investment Strategy and Investment Policy

Deputy Director of Finance, Nicholas Buchen, gave a presentation on the Lottery's existing Investment Strategy and Investment Policy for 2020 which focus on ongoing investment activity in support of SuperLotto Plus[®], Mega Millions[®], Powerball[®], and various Scratchers games. Investment activity will also include monitoring and mitigating potential risks pertaining to the Lottery's Investment Portfolio.

Commissioner Mills stated that the Commissioners would benefit in seeing some analysis on risk tolerance for the future so that the Lottery can maximize its contribution to education.

Deputy Director Buchen stated that staff will be making some changes to the Investment Policy and will be bringing both items to a future Commission meeting; therefore, no approval was requested of the Commission.

c. Request to Add One Position to Internal Audits

Deputy Director of Internal Audits, Roberto Zavala, requested Commission approval for the establishment of one additional Associate Management Auditor position in the Internal Audits office. This division is responsible for providing independent, objective audit and consulting services to Lottery management. It also has the sole responsibility to act as the audit liaison to coordinate any external audits of the Lottery. Since 2014, the Lottery has averaged 17 audits per year.

Commissioners Mills and Stern both stated their support in the added position so that Internal Audits may continue to strive towards operational excellence in serving external stakeholders and reviewers of the Lottery's work. Chairman Ahern also supported the addition of this position, given that the Lottery undergoes an average of 17 audits per year.

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 of approval.

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

d. Draw Auditing and Review Services Contract Extension

Deputy Director Zavala requested Commission approval to extend the term of the KPMG LLP (KPMG) contract for draw auditing and review services by one year, from August 1, 2020 through July 31, 2021. The current contract expires on July 31, 2020. These services are required by statute; therefore, extending the current contract and adding funding is necessary. KPMG witnesses all draws via manual or physical selection, participates daily in draw observation,

verification, certification of Lottery draws, and reports compliance with Lottery draw procedures.

Commissioner Mills asked whether the decision to not go through the request for proposal (RFP) process was because the current vendor was performing to the Lottery's expectations. Deputy Director Zavala confirmed that was correct.

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 of approval.

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

e. Extension of Asian Market Advertising Services Contract

Deputy Director of Sales and Marketing, Sharon Allen, requested Commission approval to exercise a one-year option to extend the Time Advertising (Time) contract. This contract includes Asian market advertising services, market analysis, strategy development, and positioning of the Lottery and its products. The contract between the Lottery and Time will expire on November 7, 2020.

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 of approval.

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

f. Public Website Contract Extension

Deputy Director of Information Technology Services, Jon Schlusser, requested Commission approval to exercise the first available one-year contract extension option and add additional funds to the ICF Next contract until a new Digital Agency Services contract is awarded. The current ICF Next contract for 24/7 system support of the Lottery's Public Website expires on September 30, 2020.

Commissioner Stern suggested that for future contracts, it would be helpful to the Commission to have the information presented break out the specific services a vendor will ultimately be providing pursuant to the contract, including more detailed information on how those services will integrate and tie in with other services and data that are currently in place at the Lottery.

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 of approval.

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

g. Strategic Plan and Fiscal Year 2020-21 Business Plan

Deputy Director of Business Planning, Jim Hasegawa, requested Commission approval of the strategic plan and Fiscal Year 2020-21 Business Plan. With the strategic plan as a guidepost, the Lottery develops a Business Plan to cover the tactical details for one specific fiscal year in support of the long-term objectives and strategies.

Deputy Director Hasegawa clarified for Commissioner Mills, that the Commission is being asked to approve the six objectives so that staff can build the necessary tactical roadmaps to accomplish the objectives. Ms. Mills requested that a key theme of the plan be a relentless focus on the Lottery's mission and purpose to maximize our contribution to education. Director Johnson added that education has been the Lottery's mission for 35 years. He agreed that the Lottery's essential function of providing funds to education must be front and center.

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

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

9. Commissioner General Discussion

Chairman Ahern stated that the Commission will elect its Chairperson and Vice-Chairperson at the June Commission Meeting.

10. Scheduling Next Meetings

The next Commission Meeting is scheduled for June 25, 2020 in Sacramento. Commissioner Mills requested a remote option for the Commissioners and the public to participate.

11. Public Discussion

For Public Discussion, Chairman Ahern sought public comments or questions. Ms. Kathy Chavez asked if the Attorney General investigation regarding the Lottery had concluded and if the results would be posted on the Lottery's website. Lottery Retailer, Crystal Gonzales, asked when the Lottery was going to assist retailers regarding stolen tickets. For matters raised during the Public Discussion section, the Commission cannot act on any matter not included on the agenda, but it can schedule issues raised by the public for consideration at future meetings. (Gov. Code §11125.7(a))

12. Adjournment

Meeting adjourned at 12:04 p.m.