

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – May 27, 2021

Sacramento, California

1. **Call to Order**

Chairman Gregory Ahern called the meeting of the California State Lottery Commission to order at 10:04 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 Peter Stern

Commissioner Nathaniel Kirtman

Commissioner Keetha Mills

California State Lottery staff and presenters:

Alva V. Johnson, Director

Fernando Aceves, Chief Counsel

Duane Tadlock, Supervising Lottery Agent, Security & Law Enforcement

Jorge DeLaCruz, Assistant Deputy Director of Public Affairs & Communication

Jim Hasegawa, Deputy Director of Business Planning

Nicholas Buchen, Deputy Director of Finance

Sharon Allen, Deputy Director of Sales & Marketing

Jennifer Chan, Deputy Director of Information Technology Services

Sara Sheikholislam, Deputy Director of Internal Audits

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 27, 2021 proposed agenda. Commissioner Nathaniel Kirtman made the motion to approve the agenda and was seconded by Commissioner Peter Stern. The agenda passed unanimously.

5. **Approval of the Minutes**

Chairman Ahern asked if there were any additions or corrections to the March 25, 2021, minutes. Commissioner Kirtman made the motion to approve the minutes for the March 25, 2021, Commission Meeting and was seconded by Commissioner Keetha Mills. The minutes passed unanimously.

6. Informational Items

a. Director's Comments

Director Alva Johnson provided estimates of Lottery sales through May 15th, coming in over \$7.3 billion, which is 19% above the sales goal and 30% higher than Lottery sales over the same time period last fiscal year. The annual sales goal for this year is \$7.12 billion and with a month and a half left in the year, the Lottery has already exceeded the annual goal by \$200 million. Scratchers[®] sales continue to exceed expectations with distribution sales over \$5.5 billion through mid-May, which is 19% ahead of goal and 31% over last fiscal year's sales.

The multi-state games, which include Powerball[®] and Mega Millions[®], have year-to-date sales close to \$850 million, pacing 25% ahead of goal and 48% higher than last fiscal year. Both games are outperforming their goals due to high rolling jackpots. Through mid-May, sales for California's in-state jackpot game, SuperLotto Plus[®], are 7% higher than goal and last year's sales. SuperLotto Plus jackpots are rolling at levels not seen for this game in two years.

The Daily Games, which include Daily 3, Daily 4, Fantasy 5 and Daily Derby[®], continue to see strong sales this fiscal year. Combined, these games are running 13% above goal and 14% higher than last fiscal year's sales through this time. Hot Spot's[®] sales through mid-May are over \$320 million. Fiscal year sales are 15% above goal and 19% higher than last fiscal year.

All the figures are based on the Lottery's monthly cumulative financial sales report through April 30th. Over the first 10 months of the fiscal year, Lottery sales were running 19% ahead of goal while our contributions to education were about 22% ahead of our goal over that same time period. Estimated contributions to education through the first 10 months are over \$1.5 billion. Based on current sales trends, the Lottery estimates the fiscal year will close out with sales around \$8.495 billion. All Lottery staff have worked diligently this year to continue Lottery growth and do their part, individually and as a team, to provide supplemental funds to education; all while managing unprecedented changes in their own working and personal lives. It is thanks to their hard work, unerring dedication, and great demonstrated flexibility, that the Lottery is on pace to exceed its contributions to education goal of \$1.6 billion this year.

b. Lottery's COVID-19 Support Efforts

Supervising Lottery Agent of Security & Law Enforcement, Duane Tadlock, and Assistant Deputy Director of Public Affairs & Communication, Jorge DeLaCruz, presented an overview of the Lottery's COVID-19 support efforts. The Lottery was assigned these mission-tasks by the Governor's Office. Lottery employees were given the opportunity to volunteer and staff not working the missions did their part to help with the workload in the volunteers' absence. Since May of

2020, 35 employees have assisted in Contact Tracing, which involved notifying people who were exposed to individuals infected with COVID-19. Lottery staff provided recent, relevant and reliable information which included social media/digital efforts and included the "Vaccinate All 58" campaign. Staff published two posts per week on Facebook and Instagram and provided an email outreach with a "Vaccinate all 58" newsletter.

The Lottery was also tasked by the Governor's Office of Emergency Services, along with many agencies, to assist in the first two, mega-vaccination sites in the United States, which were organized and operated by the Federal Emergency Management Agency. The two locations were California State University of Los Angeles and the Oakland Coliseum. Employees worked on average of seven days a week, 12-14 hours a day. Volunteers were charged with registering community members as they came up to the drive-through or the walk-up vaccinations and mobile teams were assigned to go out into the community. In total, the Lottery had 17 employees work over 2,800 hours over a three-month period and helped facilitate over 780,000 vaccinations in California.

c. Draft Fiscal Year 2021-22 Business Plan

Deputy Director of Business Planning, Jim Hasegawa, went over the process for building the annual business plan and stated the strategic plan objectives form the foundation. Staff reviewed what needs to be accomplished for the strategic goals to come to fruition. Mr. Hasegawa also pointed out the recent trends that need to be addressed in the upcoming year. The six strategic objectives include: modify operations to ensure health and safety and to recover from depressed sales; revisit retail strategies to adapt to the new consumer preferences; grow draw game sales particularly Jackpot Games and Hot Spot; diffuse the barriers to play by changing consumer perceptions; better inform the public and stakeholders about the Lottery; and transform the corporate culture in the organization. Teams composed of members from divisions throughout the Lottery are developing, exploring, and assessing different tactics to achieve these objectives and will identify the big priorities for the organization to maximize contributions to education.

The upcoming year will still see some attention towards resolving immediate needs resulting from the pandemic. However, compared to FY 2020-21, the Lottery will be able to put more focus on investigating ways to transform the Lottery for future growth. Staff will be responding to immediate needs resulting from recent trends, such as re-engaging casual Scratchers players in order to maintain the recent adoption of Daily Games and Hot Spot. This includes a jackpot signs initiative, localized retail efforts, promotions, and changes to the workplace to develop a post-pandemic telework policy and plan.

Some of the focused efforts to reinvigorate retail sales include a deeper analysis into the shifts in sales to find growth opportunities. Staff will also concentrate on

the acquisition of next generation self-service machines, including units that will allow expansion into new retail channels and analysis into retail performance. In order to strengthen sales in jackpot games, the Lottery will increase the number of Powerball draws each week, investigate changes in Mega Millions, develop ideas to enhance other draw games, and plan on placing more jackpot signs.

Lottery staff will be working to diffuse barriers to play by changing consumer perception and will begin with the Scratchers category repositioning effort in FY 2021-22. They will assess ways to make the Scratchers games selection easier at retail while reducing the potential for ticket theft. More information will be delivered to the public and stakeholders about the Lottery to counter any myths. Lottery staff and retailers need to be well-informed to be able to respond to questions as more information is disseminated to the public. In order to transform the Lottery into a mature yet modern and nimble organization, staff plans on improving internal infrastructure, transforming corporate culture and increasing staff engagement, and investigating ways to increase efficiency and effectiveness of Lottery operations.

Commissioner Stern asked if staff could capture more information through a digital transaction to give more insight into things like sales and marketing attribution. Mr. Hasegawa responded that if it is purchased with some type of non-cash instrument, there are ways of doing some attribution models with that information. Commissioner Kirtman requested more information on the Scratcher-category repositioning effort. Mr. Hasegawa differed to Sharon Allen, Deputy Director of Sales & Marketing. Ms. Allen stated that the repositioning effort will emphasize the play aspect of the game itself and that there is value just in the play and not only a win-lose proposition. It is to build an emotional connection to the fun in playing Scratchers. The individual games certainly have an important part of the overall mix and continue to be strong performers, but this is to build some value for the entire Scratchers portfolio to expand playership.

Commissioner Kirtman asked if the Lottery app will fit into the overall plan or is that app still going to be simply used as a reference point for games and numbers. Ms. Allen responded that the app is continuing to evolve along with the Lottery's website to showcase different features and players will still access it to check winning numbers, check jackpots, and check their tickets to see if they have won. It is a large part of the overall player experience and also an opportunity for players to enter into second chance for those games as well. An item recently launched is an opt-in player notification, so players who have downloaded the app can receive in-app notifications to let them know when there are some games available or jackpot amounts and other types of key messages from the Lottery.

d. Draft Fiscal Year 2021-22 Business Budget

Deputy Director of Finance, Nicholas Buchen, provided an overview of the Lottery's draft budget for the 2021-22 Fiscal Year. Mr. Buchen stated that staff developed the entire operational expense budget from the ground up, which is referred to as zero-based budgeting which means that each individual element was vetted and justified prior to inclusion in the proposed budget which enables resources to be concentrated where they are most effective and best aligned with the Lottery's strategic objectives. Looking at major initiatives that would be underway in the coming fiscal year, the Business Planning group developed a preliminary sales estimate by product, and staff determined the associated prize expense. This allowed for the retailer compensation and gaming cost estimates to be completed as well since they are largely dependent on sales.

The draft Fiscal Year 2021-22 Budget is projecting nearly \$8.4 billion in sales revenues and a contribution to Education of more than \$1.8 billion. The formula for the budget is comprised of four major elements: sales revenue from the Lottery's products minus the associated prize expense minus the administrative expenses equals our contribution to California public education. Mr. Buchen provided sales figures per games, which included Scratchers, Powerball, Mega Millions, SuperLotto Plus, Hot Spot and the Daily Games. He provided the prize expenses for these games, including 2nd Chance Scratchers, 2nd Chance Draw Games and Prize Expense Savings. He provided figures on administrative expenses for retailer compensation, which included the categories for commission, cashing bonus, special handling and incentives. He also went over the gaming costs, which included the gaming contract (IGT), administrative retailer fees, gaming monitor fees, Scratchers ticket costs and Scratchers delivery and support costs.

Mr. Buchen explained the figures for the administrative expense – operating costs, which included the following: personal services, marketing program, contractual services, depreciation, operation expense, reserve for insurable risk and administrative spending reserve. Any unspent Administrative funds below the Lottery's 13% cap, including unspent funds within both reserves, will be transferred in their entirety to California public education. Both unclaimed prizes and interest earnings on cash sitting within the State Treasury are mandated to be transferred directly to education. Assuming both reserves remain unspent for the coming fiscal year, the total projected contribution to public education is currently estimated to be nearly \$1.83 billion in Fiscal Year 2021-22. Mr. Buchen explained that 67% of the Lottery's projected sales for Fiscal Year 2021-22 will go toward paying prizes, 21% will go toward providing supplemental funding to education, 9% will be used to compensate our retailer partners and to pay for the Lottery's gaming costs and only 3% is for the Lottery's operating expenses. The 9% for retailer and gaming costs combined breaks out as approximately 7% for retailer compensation and 2% for gaming costs. Therefore, 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 our retailer partners.

7. Consent Calendar

8. Action Items

a. Regulation Changes to Powerball® Game

Deputy Director of Sales & Marketing, Sharon Allen, requested Commission approval of the Lottery's Regulation changes that are needed to account for game changes that have been adopted by the Powerball Product Group. In addition to Wednesday and Saturday draws, Monday is being added as a third draw day beginning August 23, 2021. The Lottery is required to implement the Powerball game changes as outlined in the Powerball Product Group Rules and cross-sell agreement in order to continue to make Powerball available for purchase in California.

Commissioner Kirtman asked who would be handling the marketing costs associated with advertising the additional draw day. Ms. Allen answered that the Multi-State Lottery Association (MUSL) will coordinate some efforts across jurisdictions that the Lottery participates in, but in terms of marketing in California, it will be at a relatively low cost with efforts planned at the retail stores using various channels such as email, social media, and some digital efforts. Chairman Ahern asked if the third draw would raise the value of the jackpots at a faster rate thus attracting more players to play the jackpot game. Ms. Allen responded that the intent of the third draw is to attract more players into the stores, three days a week.

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

b. Public Website Contract Extension

Deputy Director of Information Technology Services, Jennifer Chan, requested Commission approval to exercise two of the remaining one-year extension options of the current ICF Next, Inc. (ICF Next) contract and add additional funds. ICF Next was awarded a Digital Agency Services contract to provide strategic web design, maintenance, and marketing consultation. Since then, ICF Next has made numerous public website modifications, including the launch of a new website compliant with Americans with Disabilities Act standards.

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 Stern. The motion passed unanimously.

c. Extension and Addition of Funds to the KPMG LLP Draw Auditing and Review Services Contract

Deputy Director of Internal Audits, Sara Sheikholislam, requested Commission approval to extend the current contract which will expire on July 31, 2021, and add funding for draw auditing and review services with Klynveld Peat Marwick Goerdele (KPMG) LLP. The Lottery is required to hire an independent lottery contractor, who possesses the qualifications established by the California State Lottery Commission to witness all draws via manual or physical selection. The contractor is required to participate on a daily basis on draw observation, verification, and certification of Lottery draws, and to report compliance with agreed upon Lottery draw procedures.

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 Stern. The motion passed unanimously.

9. Commissioner General Discussion

Commissioner Kirtman commended staff on a great year given all the obstacles the Lottery endured. Commissioner Mills thanked staff for the informational items that were presented. Ms. Mills appreciated the discussions concerning the annual planning and budget and felt confident in the data-driven decisions that staff are making. Chair Ahern stated that the Commission will elect its Chairperson and Vice-Chairperson at the upcoming June meeting. A Commissioner can self-nominate or nominate another Commissioner to serve in either role. He asked that the nominations be directed to him and will forward them to Director Johnson and the Assistant to the Commission, Elisa Topete.

10. Scheduling Next Meetings

The next Commission Meeting is tentatively scheduled for June 24, 2021.

11. Public Discussion

For Public Discussion, Chairman Ahern sought public comments or questions. No one came forward. Director Johnson thanked the Commission for their time and support and wanted to recognize the Lottery's hardworking staff. They have enabled the Lottery to set sales records during these very trying times while keeping staff safe. He also thanked the Lottery's retail partners for their contributions to the Lottery's success in support of public education.

12. Adjournment

Meeting adjourned at 11:38 a.m.