

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – May 26, 2022

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. Ahern asked for a moment of silence to remember the victims who were tragically killed in Texas.

3. Roll Call

Chairman Ahern asked Elisa Topete to call the roll and he welcomed the Lottery's newest Commissioner, Tiffani Alvidrez.

Commission Members Present:

Chairman Gregory Ahern

Commissioner Peter Stern

Commissioner Keetha Mills

Commissioner Tiffani Alvidrez

California State Lottery staff and presenters:

Harjinder Chima, Chief Deputy Director

Fernando Aceves, Chief Counsel

Jim Hasegawa, Deputy Director of Business Planning

Nicholas Buchen, Deputy Director of Finance

Sharon Allen, Deputy Director of Sales and Marketing

Sara Sheikholislam, Deputy Director of Internal Audits

Jennifer Chan, Deputy Director of Information Technology Services

Tiffany Donohue, Deputy Director of Operations

Elisa Topete, Assistant to the Commission

Rebecca Estrella, Recording Secretary

4. Consider Approval of the Agenda

Chairman Ahern stated that staff requested Action Item 8d – Construction Services Contract – Otto Construction, be removed from the agenda and tabled to a future meeting and asked for any objections. Hearing none, he asked if any of the Commissioners wanted to make any additional changes to the May 26, 2022 proposed agenda. Commissioner Peter Stern made the motion to approve the amended agenda and was seconded by Commissioner Keetha Mills. The agenda passed unanimously.

5. Approval of the Minutes

Chairman Ahern asked if there were any additions or corrections to the March 17, 2022, minutes. Commissioner Mills made the motion to approve the minutes of the

March 17, 2022, Commission Meeting and was seconded by Commissioner Stern. The minutes passed unanimously.

6. Informational Items

a. Director's Comments

Chief Deputy Director Harjinder Chima, provided an estimate of Lottery sales through May 14th, coming in at over \$7.8 billion, which is 6% above the sales goal and 7% higher than Lottery sales mid-May of last year. Staff is expecting year-end sales for Fiscal Year (FY) 2022 to be one of the Lottery's highest to date. Scratchers[®] distribution sales are over \$6 billion. Since January, Scratchers have regularly contributed over \$130 million in sales per week. Currently, total Scratchers sales are pacing 9% ahead of last year's sales and 6% over goal.

The multi-state games, which include Powerball[®] and Mega Millions[®], have sales over \$830 million combined. These sales are 2% behind last year's sales because of a lack of billion dollar jackpots this year. Last year, Mega Millions had a \$1 billion jackpot in January. Mega Millions highest jackpot this year was \$432 million, which occurred in September 2021, and has led to Mega Millions sales lagging last year's sales and this year's goal. Powerball seems to have benefitted from the change to three draws a week as it had nine jackpots over \$400 million this year, compared to only five in FY 2021. This has resulted in year-to-date sales to be around 40% higher than goal and last year's sales. Powerball's success has offset much of Mega Million's performance this year, bringing total multi-state game sales to 14% above goal. SuperLotto[®] Plus is pacing very close to goal for this year and last year's sales.

Sales for the Daily Games, which include Daily 3, Daily 4, Fantasy 5, and Daily Derby[®], are pacing on par with their goal and last fiscal year's sales. Hot Spot's[®] sales through mid-May continue to exceed goal with sales exceeding \$350 million so far this year. After the game was hit hard by the pandemic in 2020, Hot Spot has since rebounded and continues to bring in strong sales each week. Year-to-date sales are tracking 9% ahead of last fiscal year's sales.

The contributions to public education figures are based on the Lottery's monthly cumulative financial sales report through April 30th. At that time, total sales were running 7% ahead of goal, while contributions to education were tracking 17% ahead of goal. Currently, total estimated contributions to education are over \$1.7 billion, which is \$245 million greater than goal and \$150 million more than estimated contributions to education through April of last fiscal year.

b. Draft Fiscal Year 2022-23 Business Plan

Jim Hasegawa, Deputy Director of Business Planning, presented the draft Business Plan for the upcoming fiscal year. Mr. Hasegawa went over the strategic objectives that were approved in 2020, which were the result of an extensive assessment and discussion by the Executive Team. The draft Business Plan represents the best path for continued growth in the Lottery's contributions to California Public Education, with a goal of surpassing the \$2 billion threshold. The objectives also include modification of operations to ensure the health and safety of staff, a plan to recover from depressed sales, strategies to adapt to new consumer preferences, and methods to grow draw game sales (particularly jackpot games and Hot Spot). Staff intends to diffuse the barriers to play by changing consumer perceptions and better inform the public and stakeholders about the Lottery and transform the corporate culture in the Lottery organization.

Mr. Hasegawa presented highlights from the Lottery's business review, showing recent sales trends, not only for Lottery but for other industries in the leisure and entertainment field. He also stated that after conducting surveys, the overall perception of the Lottery has improved over the last ten years. Chair Ahern asked if the surveys included explanations for the negative perceptions. Mr. Hasegawa explained that there was no one specific area, however some California adults view the whole notion of government-sponsored gaming as something they may oppose politically or morally.

Commissioner Stern referred to the slide that indicated that approximately 80% of consumer payments don't use cash. He asked if mobile payments were a new category as of 2021, and how it was defined. Mr. Hasegawa stated that he would consider mobile payments more like the Apple Pay, which is using the smartphone for payment. He stated that he would look into the actual report and get back to him with additional information.

Mr. Hasegawa stated that there are cross-divisional teams that are evaluating the various ideas to try and develop what should rise to the top for the next three to five years. Once the process is updated, staff will bring it to the Commission sometime during the fall. Ms. Mills asked if the \$2 billion contribution goal to education will be met this year. Mr. Hasegawa stated that it is very possible, although it would depend on some of the accounting measures. Some of the gains in sales were ones that the Lottery might not anticipate every year. Therefore, staff must be able to build it in through its programs so that the Lottery can rely on sales that could get to the \$2 billion year after year. Ms. Mills asked if there are still challenges regarding ticket distribution at the warehouses or are the distributions back to pre-pandemic operations. Sharon Allen, Deputy Director of Sales and Marketing, stated that staff are keeping up with the demand and there have not been any backlogs. There has been some limit in the amount of games to make sure that the warehouses can handle the production levels, however the number

of games has gone up in the last couple of months. Thus, the Lottery now has full game distribution capacity. Hiring has also been a challenge in getting the staff needed for the warehouse positions.

Commissioner Alvidrez asked how long the consumer research on the jackpot games and Hot Spot will take and inquired about the components of the research. She also asked if staff was looking at other social media channels to help grow these games and reach a broader audience. Mr. Hasegawa explained that the list of ideas still ranges with selling the product at brick-and-mortar stores. Staff is currently working on social media through the Lottery's current advertising strategies. The first type of research is the consumer research and testing, which typically takes three to four-month periods. Once staff identifies the revenue potential for different ideas, then we identify resources needed to implement the different projects, which can take up to a 12-month period. Commissioner Alvidrez asked if the consumer research was done on a regular schedule or periodically. Mr. Hasegawa responded that staff is always conducting consumer research, but that it varies from product to product.

Commissioner Mills asked if there are opportunities to mitigate and alleviate the barrier of the cash requirement and if there are any opportunities to think beyond the Lottery's traditional retailers about product placement. For instance, can the Lottery's products be placed in movie theaters or airports? Mr. Hasegawa stated that the team has been researching this area because there are several lottery jurisdictions that have been allowing debit card usage. Staff has been investigating the sales benefits for this payment method. For example, the self-service machines can be outfitted to accept debit cards. Unfortunately, with debit cards, there has to be a financial intermediary to handle the transactions and they charge a fee. Detailed projections and further research will be needed to make sure that the bottom line is still going to be positive. In terms of other venues for Lottery products, recruitment staff and vendors are constantly looking into alternative locations.

c. Draft Fiscal Year 2022-23 Budget

Nicholas Buchen, Deputy Director of Finance, provided information on the draft 2022-23 budget and explained the development process, which is referred to as Zero-Based Budgeting. The Business Planning Group developed a preliminary sales estimate by product by incorporating projected gains from certain initiatives that are already in progress. Later, staff identifies the associated prize expense. This allows staff to determine the retailer compensation and gaming cost estimates, since these are largely dependent on sales. The result of this process is the Draft Fiscal Year 2022-23 Budget projecting just over \$8.5 billion in sales revenue and a contribution to education of just over \$1.8 billion.

Mr. Buchen compared the estimated revenues and expenditures for the 2022-23 fiscal year to the estimate of how the Lottery will end the current fiscal year on

June 30th. The Lottery's budget is a basic formula comprised of four major elements; ticket sales revenue minus the associated prize expense minus the administrative expenses equals the contribution to education. Mr. Buchen provided detailed information on sales, prize expense, administrative expense – retailer and gaming costs, administrative expense – operating costs, and contribution to education.

Assuming the reserves remain unspent and excluding the unclaimed prizes and interest earnings, 67% of the projected sales for fiscal year 2022-23 will go toward paying prizes, 21% will go toward providing supplemental funding to education, 9% will be used to compensate the Lottery's retailer partners (7%) and pay for the gaming costs (2%), and only 3% will be used for operating expenses. Mr. Buchen concluded by stating that 95 cents out of every dollar the Lottery takes in, is returned to the public in the form of funding for Public Education, prizes paid to the players, and compensation paid to the Lottery's retailer partners.

Commissioner Stern asked for additional information on the methodology used when setting the sales figures for the games that have more variability as the prize payout increases. He also asked if it was done using historical trend data. Mr. Buchen stated that the Lottery has more control of Scratchers and Hot Spot games. Those who play Scratchers through the years have naturally been going to higher and higher price points, which increases the prize expense. The Lottery is making more sales, raising our bottom line. That is the biggest variable.

Commissioner Mills stated that the Scratchers sales are projected to decrease. However, ticket cost, delivery, and support costs for Scratchers are either flat or increasing. She asked for an explanation on that relationship. Mr. Buchen explained that the biggest difference of the ticket costs includes two components; the amount that the Lottery pays the three specialized vendors that print Scratchers and the licensing fee the Lottery pays for certain games such as Monopoly[®]. And then there are other games that are printed on specialized paper, which has more consumer appeal. Research has shown that licensed games and specialized paper do better than non-specialized games.

Commissioner Mills asked if the total contribution to education is mainly coming from Scratchers and what the comparison is from this year to next year. Mr. Buchen explained that the draft budget assumes that Scratchers prize payout is going to be more in the coming fiscal year than it was in this current fiscal year. Ms. Mills stated that since Scratchers has the Lottery's highest game cost, it is important to really focus on the controllable costs during the expected sales decline. If there are controllable costs that staff can try to drive down to increase that margin, it would be important, especially since the Lottery is moving into a predicted declining year.

7. Consent Calendar

8. Action Items

a. Contract Amendments Concerning Scratchers® Printing Services

Sharon Allen, Deputy Director of Sales and Marketing, provided an overview of the Scratchers Printing Services contract amendments. There are currently only three vendors in the world that provide the comprehensive, highly specialized printing services that can meet the quality, volume, and security requirements of the Lottery. The Lottery has contracts with Scientific Games, Pollard Banknote, and IGT Global Solutions. All three vendors are strategic business partners and have helped the Lottery increase Scratchers sales from approximately \$3 billion in 2013 to over \$6.4 billion in 2021.

Commissioner Stern asked if the Lottery's partners are experiencing any supply chain issues in terms of their inventory and products. Ms. Allen stated that like other lotteries, there was a surge in demand for Lottery tickets as pandemic restrictions occurred. For Scratchers vendors, there is such a limited amount of space on massive printing presses and everybody was competing for time, therefore the Lottery had to make some changes and order sooner. Scientific Games now has an additional printing plant in Canada and after being reviewed by the Lottery's Security and Law Enforcement team, it is now producing more product to meet the Lottery's demand.

Commissioner Mills asked if the pricing changed with the amendments or if it was already pre-negotiated into the amendments. Ms. Allen stated that they were all pre-negotiated in the original contract, but that staff would work with the vendors to see if there is any favorable pricing that can be secured.

1. Scientific Games International, Inc. Instant Ticket Printing Contract Extension and Increase in Expenditure Authority

Ms. Allen requested Commission approval to extend the contract to November 30, 2023 and add additional funds. Scientific Games is the primary vendor for instant tickets production.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(a)1. No one came forward, so he proceeded to the motion.

Commissioner Mills made the motion to approve Action Item 8(a)1 and it was seconded by Commissioner Alvidrez. The motion passed unanimously.

2. Pollard Banknote Limited Instant Ticket Printing Contract Extension and Increase in Expenditure Authority

Ms. Allen requested Commission approval to extend the contract to November 30, 2023 and add additional funds. Pollard Banknote Limited is a secondary vendor for instant tickets production.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(a)2. No one came forward, so he proceeded to the motion.

Commissioner Mills made the motion to approve Action Item 8(a)2 and it was seconded by Commissioner Alvidrez. The motion passed unanimously.

3. IGT Global Solutions Corporation Instant Ticket Printing Contract Extension

Ms. Allen requested Commission approval to extend the contract to November 30, 2023 and add additional funds. IGT is a secondary vendor for instant tickets production.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(a)3. No one came forward, so he proceeded to the motion.

Commissioner Stern made the motion to approve Action Item 8(a)3 and it was seconded by Commissioner Mills. The motion passed unanimously.

b. Amendment of an Interagency Agreement with the Department of Rehabilitation

Sara Sheikholislam, Deputy Director of Internal Audits, requested Commission approval for a final option to extend the term an additional three years and augment contracts funds for the interagency agreement with the Department of Rehabilitation to conduct accessibility inspections of Lottery Retailers locations, as well as for consulting services.

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

c. Microsoft Unified Performance Level Support Agreement

Jennifer Chan, Deputy Director of Information Technology Services, requested Commission approval to renew the Microsoft Unified Performance Level Support Agreement for a period of 12 months.

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.

d. Construction Services Contract – Otto Construction

**Removed from the agenda.

e. Amendment to Statewide Modular Systems Furniture Services Contract

Tiffany Donohue, Deputy Director of Operations, requested Commission approval for an amendment to the Agreement with Western Contract Furnishers of Sacramento for an additional two-years. The proposed term runs through June 14, 2024 for the acquisition of modular furniture parts, associated reconfiguration, and installation services.

Commissioner Mills asked what products or services are being provided and what steps did the Lottery take to ensure we are getting best prices out of this sole source contract. Ms. Donohue answered that the Lottery went through a competitive process; laying out their specifications before they came into this facility. Hayworth was the selected furniture provider from that competitive process. From that point, the Lottery looked at who could supply that furniture for the Lottery, and it was determined that Western Contract Furnishers was suitable. They also provide design services, which assist in how staff can best utilize the internal space. They also provide installation, which is the agreement to come in and install the designed concepts of that modular reconfiguration project. In the future, as we continue to grow and evolve, the Lottery plans to put this particular service contract back out to bid to see what other types of opportunity we can find in terms of getting providers and if there is a better value available.

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

f. Contract Amendments Concerning Bulk Delivery Services

Sharon Allen, Deputy Director of Sales and Marketing, provided an overview of the carrier services and stated that the Lottery's two distribution centers are responsible for shipping Scratchers products to the Lottery's 23,000 retailers. In addition, they also move Scratchers and point-of-sale material between the two distribution centers and to the district offices.

1. Mytess Designated Bulk Carrier Services Contract

Ms. Allen requested Commission approval for a new three-year contract with Mytess to provide designated bulk carrier services for Scratchers ticket and Point-of-Sale delivery. Services are required to go between the two Distribution Centers to balance inventory.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(f)1. No one came forward, so he proceeded to the motion.

Commissioner Stern made the motion to approve Action Item 8(f)1 and it was seconded by Commissioner Alvidrez. The motion passed unanimously.

2. ProTrack Designated Bulk Carrier Services Contract

Ms. Allen requested Commission approval for a new three-year contract with PacTrack to provide designated bulk carrier services between the southern Distribution Center and the five Southern District Offices for Scratchers ticket and Point-of-Sale delivery.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(f)2. No one came forward, so he proceeded to the motion.

Commissioner Mills made the motion to approve Action Item 8(f)2 and it was seconded by Commissioner Stern. The motion passed unanimously.

3. GG Delivery Designated Bulk Carrier Services Contract

Ms. Allen requested Commission approval for a new three-year contract with GG Delivery to provide designated bulk carrier services between the Northern Distribution Center and four northern District Offices for Scratchers ticket and Point-of-Sale delivery.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(f)3. No one came forward, so he proceeded to the motion.

Commissioner Stern made the motion to approve Action Item 8(f)3 and it was seconded by Chairman Ahern. The motion passed unanimously.

9. Commissioner General Discussion

Commissioner Mills requested a future presentation on how schools are using the Lottery's contributions and how those contributions are impacting California students. Chief Deputy Director, Harjinder Chima, stated that the Deputy Director of Public Affairs and Communications is working on a presentation regarding that subject to share at a future Commission meeting. Chairman Ahern noted that the

Commission will elect its Chairperson and Vice Chairperson at the June Commission meeting.

10. Scheduling Next Meetings

The next Commission Meeting is tentatively scheduled for June 30, 2022.

11. Public Discussion

For Public Discussion, Chairman Ahern sought public comments or questions.

No one came forward.

12. Adjournment

Meeting adjourned at 11:55 a.m.