

**STATE OF CALIFORNIA
TRANSCRIPT OF PROCEEDINGS**

**CALIFORNIA STATE LOTTERY COMMISSION
COMMISSION MEETING**

TIME: 10:02 a.m.
DATE: Thursday, June 30, 2022
PLACE: California State Lottery Headquarters
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Sacramento, California 95811

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A P P E A R A N C E S

California State Lottery Commission

Gregory Ahern
Chair of the Commission
Commissioner

Peter Stern
Vice Chair of the Commission
Commissioner

Nathaniel Kirtman, III
Commissioner

Keetha Mills
Commissioner

Tiffani Alvidrez
Commissioner

Participating Lottery Commission Staff

Alva V. Johnson
Director

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Chief Counsel

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Deputy Director of Business Planning

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Sharon Allen
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Sara Sheikholislam
Deputy Director of Internal Audits

Elisa Topete
Assistant to the Commission

Rebecca Estrella
Recording Secretary

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I N D E X

| <u>Description</u> | <u>Page</u> |
|--|--------------------|
| 1. Call to Order | N/A |
| 2. Pledge of Allegiance | N/A |
| 3. Roll Call of Commissioners | N/A |
| 4. Election of Chair and Vice Chair of the California State Lottery Commission | 4 |
| 5. Consider Approval of the Agenda | 7 |
| 6. Approval of the Minutes of the May 26, 2022, Commission Meeting | 7 |
| 7. DIRECTOR'S REPORT: | |
| a. Director's Comments | 8 |
| 8. CONSENT CALENDAR | 15 |
| 9. ACTION ITEMS | |
| a. Fiscal Year 2022-23 Business Plan | 15 |
| b. Fiscal Year 2022-23 Budget and Presentation | 30 |
| c. Extension and Addition of Funds to Time Advertising Contract | 56 |
| d. Draw Auditing and Review Services Contract | 59 |
| e. Emergency Extension of KPMG LLP Draw Auditing And Review Services Contract | 62 |

| | | |
|-----|---|----|
| 10. | Commissioner General Discussion | 64 |
| 11. | Scheduling Next Meetings September 29, 2022 | 64 |
| 12. | Public Discussion | 65 |
| 13. | Adjournment | 66 |

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Thursday, June 30, 2022

Sacramento, California

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(Items Number One, Two, and Three Off the Record)

CHAIR AHERN: -- to Item Number Four, (audio malfunction) of the Chair, California State Lottery, Chief Counsel Fernando, can you please review the Rules of the Elections?

MR. ACEVES: Thank you, Chair. The California State Lottery Act provides that the Commission shall elect annually from its membership a Chairperson. That's under Government Code Section 8880.19. Commission may also elect a Vice Chairperson (audio malfunction) Commission. Any Commissioner can put the name of any Commissioner into nomination. The Commissioner can nominate himself or herself to serve as the Chairperson or Vice Chairperson. The Lottery Act does not require a particular method of making nominations. Once nominations have been made, Chair Ahern shall declare the nominations closed. The votes are asked of each Commissioner on the nomination, as with all Commission votes under the Lottery Act, and it take three votes to take an action. Chair Ahern will then declare the results of the election.

CHAIR AHERN: All right, thank you. We shall have open nominations for the positions of Chairperson and

Vice Chairperson on the Commission. Keetha Mills made the nomination for me to continue as Chair of the Commission, and thank you very much for that, and also Commissioner Stern to continue as the Vice Chair.

MR. ACEVES: Thank you, Chair Ahern. I would like to note for the record that Commissioner Ahern has received a nomination for the Commission Chair, and Commissioner Stern has received a nomination for the Commission's Vice Chair. Now, other than Commissioner Ahern, are there any other nominations for the position of Chairperson of the Commission?

CHAIR AHERN: Hearing none, I'll then declare the nominations closed. Can we please have a vote by roll call?

MS. TOPETE: Commissioner Kirtman?

COMMISSIONER KIRTMAN: Yes.

MS. TOPETE: Commissioner Stern?

COMMISSIONER STERN: Yes.

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. And for the record, that's a better result than my most recent polling. So, my election to remain as Chair of the California State Lottery

Commission is approved and thank you very much. That means a great deal to me.

MR. ACEVES: Okay.

CHAIR AHERN: Other than --

MR. ACEVES: Other than the Commissioner -- than Commissioner Stern, are there any other nominations for the position of Vice Chairperson of the Commission?

CHAIR AHERN: Okay, hearing none, I declare the nominations closed. Can we please have a vote by roll call?

MS. TOPETE: Commissioner Kirtman?

COMMISSIONER KIRTMAN: Yes.

MS. TOPETE: Commissioner Stern?

COMMISSIONER STERN: Yes.

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. And for the record, Commissioner Kirtman's "yes" vote was a lot faster for --

COMMISSIONER STERN: Much appreciated, thank you.

CHAIR AHERN: The election of Commissioner Stern as Vice Chair of the California State Lottery Commission is approved, so thank you very much.

MR. ACEVES: Thank you, Chairman.

CHAIR AHERN: Item Number Five is Consider Approval of the Agenda. Commissioners, does anyone want to suggest any changes to today's agenda in any respect? Hearing none, do I hear a motion to adopt the agenda?

COMMISSIONER MILLS: Move to approve.

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: Yes.

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. All right. Moving along to Item Number Six, which is Approval of the Minutes of the May 26, 2022, Commissioner Meeting. Is there any motion for approval of the minutes?

COMMISSIONER MILLS: Motion to approve.

COMMISSIONER STERN: Second.

CHAIR AHERN: And 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: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. All right. Item Number Seven is Informational Items, so we'll move on to Informational Items and calling on Director Alva Johnson. We're so glad to have you in person for our meeting today.

DIRECTOR JOHNSON: Thank you, Mr. Chairman. Apologies for missing the last in-person meeting. I was under the weather, but I'm very happy to be here today. Good morning, Chairman and Commissioners. This is my report for the State Lottery for today's meeting. Let's go ahead and bring up the first slide, please.

Okay. Commissioners, total Lottery sales through Saturday, June 18th are over \$8.5 billion. This is five percent higher than this year's sales goal and last year's sales through mid-June. Although these sales do not reflect the last two weeks of the year, as of today, we can confidently state that Fiscal Year 2021-22 is set to be one

of our best-selling years to date. Scratchers distribution sales are over \$6.6 billion, already surpassing the annual goal for this year of \$6.5 billion. Our strong product mix this year was led by the popular Crossword and Multiplier-theme games, along with the \$10, \$20, and \$30 prize points. The multi-state games, which include Powerball and Mega Millions, have sales over \$900 million combined. These sales are 12 percent higher than goal. Without a jackpot over \$500 million this year, Mega Millions sales are expected to remain below goal for this year. However, Powerball has benefited from the additional third draw each week. Its jackpots have rolled to sizeable levels several times this year, resulting in year-to-date sales already \$140 million higher than its total goal for the year. SuperLotto Plus sales are on par with this year's goal. As expected, its sales are slightly less than the last fiscal year due to greater competition from Powerball. As you will hear later in our Business Plan presentation, the Lottery is looking into efforts to better support and improve SuperLotto Plus over the next several years. Sales for the Daily Games, which include Daily 3, Daily 4, Fantasy 5, and Daily Derby, are on par with last fiscal year's sales and pacing just \$10 million below goal. We suspect these games had a softer Spring this year, softer than expected due to Lottery players redistributing their entertainment dollars

to other Lottery games as the pandemic restrictions eased. Hot Spot sales have exceeded goal all year. With sales just shy of \$390 million through mid-May, this game is on track to finish out the year above goal and hitting a new annual record.

Our most important measure for assessing the performance of the Lottery is our contributions to Public Education, which are tracking 14 percent ahead of goal. These figures are based on the Lottery's monthly cumulative financial sales report through May 31st. At that time, total sales were running six percent ahead of goal, while contributions to education were tracking 14 percent ahead of goal, with almost \$1.85 billion earned. This is \$200 million greater than goal and \$125 million more than estimated contributions to education through May of last fiscal year.

As 2021-22 is coming to an end, we think it's time to reflect on just some of our highlights and accomplishments this year. In September, the Lottery launched its new Scratchers brand repositioning campaign, anchored by the tag line, "A little play can make your day." The multi-year effort is designed to increase the appeal of Scratchers games and frequency of play among casual and non-players by positioning these games as small amounts of fun they can add to their day. This campaign's goal is to break

down barriers to responsibly grow Scratchers revenue and Lottery's contributions to education in the years ahead. The jackpot games also had exciting news this year, with the addition of a Monday Powerball draw. According to research on Powerball sales performance this year, players have responded positively to the change. After the onset of the pandemic, 2020 became a hard year for many of our retail partners, resulting in several closures. However, the Lottery's Retail Recruitment Team took action, and the number of retailers actively selling Lottery products is now back to over 23,000 stores. As a result of these efforts and more, total Lottery sales are estimated to end this fiscal year over \$8.9 billion. This will represent the highest amount ever achieved in California Lottery history.

Sales accomplishments are not the only highlights from this fiscal year. Not to be forgotten are the operational improvements that keep the Lottery functioning efficiently, effectively, and responsibly. The Lottery continues to improve its COVID-19 response through the continued use of the Emergency Telework Program and updates to the COVID-19 Safety Protocol to ensure the safety of all staff. Additionally, statewide COVID-19 testing procedures were implemented in all Lottery facilities in accordance with Department of Public Health, State policy and Cal/OSHA guidelines. Our Human Resources Division also expanded the

Lottery's Learning Central Training Library to offer more than 2,500 classes. They developed more resources for managers to lead in the new remote work environment more effectively and also rolled out a new Peer-to-Peer Recognition Program for staff to easily, publicly, and genuinely recognize their fellow co-workers for the things they do. Our Security and Law Enforcement Division, our IT Services Division, and our Operations Division have transformed how the Lottery manages its physical security. Instead of relying on an outside contractor to manage and maintain the physical security environment, internal departments at the Lottery have assumed these duties, resulting in significant cost savings and a reduction of critical vulnerabilities, risks, and malfunctions. Our IT Division also completed the installation of PA systems at each of the warehouses and district offices in order to allow SLED to quickly contact them in the event of an emergency to further ensure the security and safety of Lottery staff. They also continued enhancements and ongoing work to address end-of-life and legacy technical components to further improve the Lottery's overall security posture. Our claims-processing times have returned to pre-pandemic norms, and the Lottery also received two Financial Reporting awards this year. The first was our 18th consecutive Certificate of Achievement for Excellence in Financial

Reporting, and the second award was for Outstanding Achievement in Popular Financial Reporting. These awards demonstrate our commitment to transparency and full disclosure of our revenues, expenditures, and contributions to California's public schools. Additionally, a multi-year, multi-division effort came to fruition finally this year with the rollout of the Lottery's new financial and procurement systems, Epicor 10, and Advanced Requisition Management systems. These new systems provide several benefits to the Lottery, including improving overall system performance, normalized system maintenance, enhancing user interfaces, and reporting.

The Lottery team's hard work this year, combined with millions of Californians buying our products, have us projected to contribute an estimated \$2 billion to education this year, a first for the California Lottery. I want to thank our hardworking and dedicated Lottery team members, retail partners, vendors, and players for making this historic achievement possible. Thanks very much.

CHAIR AHERN: Thank you. Do you have any other comments you'd like to address the Commission on?

DIRECTOR JOHNSON: Let's see. Mr. Chairman, there is one more matter. Did you want to introduce that, or should I?

CHAIR AHERN: I'd like you to continue on.

DIRECTOR JOHNSON: Thank you, sir.

Commissioners, the Lottery has prepared a resolution honoring Commissioner Nathaniel Kirtman, III, and with your consent, I'd like to read it. "Whereas Nathaniel Kirtman, III will leave his position as Commissioner of the California Lottery on July 1st, 2022 after nine years of outstanding service to the California Lottery; and whereas the California Lottery wishes to recognize Nathaniel Kirtman, III for this invaluable and dedicated service to the California Lottery as Commissioner; and whereas Nathaniel Kirtman, III, was first appointed as a Commissioner of the California Lottery on January 11th, 2012; and whereas Nathaniel Kirtman, III, was elected to the Vice Chair of the California Lottery Commission by his fellow Commissioners on June 27th, 2013 and was elected Chair of the California Lottery Commission by his fellow Commissioners on June 15th, 2015; and whereas Nathaniel Kirtman, III, has served under two California Governors and alongside four California Lottery Directors; and whereas, during Nathaniel Kirtman III's first year as Commissioner, the projected sales goal for the California Lottery was \$4.8 billion, with \$1 billion going to California schools, and the projected sales goal for his last year is \$8.45 billion, with over \$2 billion going to California schools; and whereas Nathaniel Kirtman, III has earned the admiration and respect of his

fellow Commissioners and the employees of the California Lottery for his dedication, collegiality, enthusiasm, professionalism, sense of humor, and hard work; and now, therefore be it resolved that we the California Lottery do hereby extend to Nathaniel Kirtman, III our sincere and grateful appreciation for his service to the California Lottery and our best wishes for continued success, happiness, and good health in the years to come." Presented by the California Lottery in Sacramento on this 30th day of June 2022.

CHAIR AHERN: (Audio malfunction) instead of a piece of paper. So, make that a beautiful presentation (audio malfunction). Thank you very much. I think I have a (audio malfunction) --

COMMISSIONER KIRTMAN: Wow.

CHAIR AHERN: -- through my eyes.

COMMISSIONER KIRTMAN: Thank you, gentlemen.

CHAIR AHERN: (Inaudible). All right. (audio malfunction) my report. Thank you very much. Appreciate that. Okay, the next item is Number Eight. It's the Consent Calendar. There are no items under Consent Calendar, so we'll proceed to Action Items. This brings us to Action Item 9a, Fiscal Year Business Plan. I call on Jim. Get sanitized.

DEPUTY DIRECTOR HASEGAWA: Good morning, Mr.

Chairman and Commissioners, Director Johnson. It's my honor to present the Fiscal Year 2022-2023 Business Plan for your consideration. As I stand here, it's hard for me to imagine actually talking about the year 2022-23, having been here at the Lottery for quite a long time. The Business Plan is formulated on an annual basis and represents the key initiatives to be undertaken in the upcoming fiscal year, and it's created in concert with the fiscal year budget. The six strategic objectives, which the Commission approved back in 2020 and are displayed up here on this slide act as a foundation and a starting point when drafting the annual Business Plan. However, if new information such as recent sales and other business turns, along with updates from existing projects, are also used to see if there are new issues that need to be addressed in the Plan.

As a summary of the charts and data that I presented at last month's meeting, here are some of the key conclusions from our Business Review. Lottery sales were boosted during Calendar Year 2021 due to consumers not being able to participate or feeling uncomfortable doing certain activities like dining in restaurants, traveling on a plane, or going to movies, concerts, or sporting events due to the pandemic. We also showed how as the pandemic subsided and restrictions eased, Lottery sales, started -- starting in the Spring of 2022, began to dip below their 2021 levels.

Now, we saw this across all products, with the exception of Powerball. For Powerball, we showed how adding a third draw on Mondays increased weekly sales by 23 percent, when jackpots were under \$250 million. For the larger jackpots, sales were about three percent higher. And finally, for the Scratchers brand repositioning, the advertising campaign that started in September of 2021, we discussed some metrics from some early reports. These showed very promising signs for the campaign in terms of ad recall, persuasion, and the perceptions of Scratchers changing. Now, over the past few years, many of the initiatives being proposed would result in projects requiring multi-year efforts and significant staff resources. To ensure that the Lottery embarks on strategies and tactics that would maximize the dollars we contribute to Public Education, the Plan includes several projects involving a deeper investigation of alternatives or these alternative initiatives. These include estimating potential revenue and the staff resources needed to implement and other issues associated with the feasibility. On the other hand, the upcoming year also has projects where implementation will occur next year and are designed to address some immediate (audio malfunction).

Now the Business Plan for the upcoming year has a total of five objectives outlined on this slide that I also reviewed during the May informational session. I will

review each of these objectives over the next few slides and provide a few examples. The first objective addresses the recent sales trends that I talked about. So, with consumers wanting to resume various leisure activities they'd put on hold for the past two years, the Lottery will be in fierce competition for the discretionary entertainment dollar. Now, various tactics for the Scratchers product could help us achieve this objective of maintaining Scratchers interest in play in this highly competitive environment. This includes, first off, the introduction of a \$1 Crossword game, as well as adding a \$30 Crossword game to this very popular franchise.

Next, taking familiar and popular brands that are already in the leisure and entertainment field and creating Scratchers games around them provides another way to compete. In the past, Scratchers games with themes licensed from brands like Monopoly and Pac-Man have generated strong interest in sales, and during the upcoming year, four different months will include new Scratcher games utilizing licensed properties. In addition to the successful LOTERIA franchise, brands from the movie industry and board games are among the types being considered by the Product Development team. In next year's plan there'll be a total of 53 new Scratcher games being introduced, and that's one more than in the current fiscal year, and the plan also

includes continuing efforts to reposition the Scratchers brand as a fun entertainment alternative. Remember, "A little play can make your day."

The second objective for the upcoming year is to focus efforts to reinvigorate retail. Now, since Californians can only purchase Lottery products at a brick-and-mortar store, the number and the type of retailers in our network is critical for our success. The coming fiscal year will see a major initiative to bolster our retailer network. It involves the addition of more than 200 Walmart Supercenters starting this summer. Now, with this rollout, a new retail trade channel, general merchandise stores, will be added to the types of stores selling Lottery tickets. And preparing for future growth, efforts next year will focus on looking at other new chains to try and acquire, as well as new retail channels. In addition, further exploration of a new method for consumers to buy Lottery tickets in the lanes of supermarkets or club-type stores will continue to be pursued.

The third objective involves creating opportunities to grow the sales of our Draw Games. These games typically have lower prize payouts than Scratchers; therefore, a greater share of its sales would go to Education. Now, product changes to our Draw Games, they do require more resources, as it involves changes to our gaming

system. Now, while no game changes are planned for the upcoming fiscal year, research and development is already underway for future product and marketing enhancements to various jackpot games as well as for Hot Spot. As an -- as a specific example, alluded to by the Director, one of the tasks from a team comprised of staff across most of the divisions in the Lottery involved brainstorming ideas to grow sales of our in-state SuperLotto Plus game. Now, from this list, about ten or so of these ideas will be developed a bit further and then rigorously evaluated, using consumer research to see how revenue might be impacted by each of these ideas.

Turning to the fourth objective, to increase frequency of play among our allied casual players, or to attract non-players to try the Lottery, several perceptual barriers need to be defused, and these were identified in prior research. Now these typically involve misperceptions about the Lottery as an organization or about the people who buy Lottery tickets, as well as certain perceptions about our games. So, efforts on this fourth objective involve continuing to increase knowledge about the Lottery and its operations. In particular, communications to important audiences like core Lottery players, retailers, Lottery staff, and key stakeholders need to be prioritized. Now this is because, as information is disseminated to the

general public, people will have -- likely have questions, and they will go and either ask the Lottery retailer, a friend or a relative who plays the Lottery, or someone they know who works at the Lottery. So, it's important that these key audiences know the answers to those questions. Now the tactics that will be used for these efforts will be presented as an informational item at September's Commission Meeting.

And finally, the last objective is "Transform and Modernize the Lottery." An example of this is the development of the Lottery's Non-Emergency Telework Program. This will align with the Department of General Services and State Administrative Manual requirements, and in the upcoming year, a Non-Emergency Telework Policy will be finalized, and steps rolled out to implement (audio malfunction) policy. Transformation and modernization of the Lottery through its many initiatives will allow us to better handle the increased workload associated with the sales growth that we've experienced over the past ten years, as well as enlarge our capacity to handle future sales gains. Now, there are many aspects to transforming the organization. Part of this transformation is through modernizing the Lottery's infrastructure, including many technology upgrades. Now, one example I want to highlight is an area to move -- is an area in moving from paper-based

forms to electronic documents. Instead of assessing and analyzing each individual request for transforming a manual paper-based system to an automated document workflow, this initiative will develop a more standardized and repeatable process for evaluating and implementing any request. This way, each new request can be more quickly and more efficiently assessed and then rolled out and implemented. Another aspect of our transformation is to seek ways to improve the customer experience for players, retailers, and internal customers, and there are some Research and Development proposals that we'll be exploring to develop for future implementation.

Finally, but most importantly, to truly transform any organization, a change in its corporate culture is imperative. You know, people transform a company, not just new technology or new processes, so the corporate culture in the Lottery will be transformed so everyone embraces change and seeks continuous improvement, everyone feels like a valued and respected member of the team and understands how their efforts lead to the bigger picture of contributing dollars to Public Education. Now, while some tactics have already been implemented in this area, more are slated for the upcoming (audio malfunction). And then those presents the the Business Plan, the five objectives, and some examples of the tactics under each of them. I can answer

any questions at this time.

COMMISSIONER STERN: I do have a question about Objective Number Two, the Retail Strategies.

DEPUTY DIRECTOR HASEGAWA: Yes.

COMMISSIONER STERN: So, fantastic on the partnership with Walmart. Do you have a sense or a forecast or a goal in terms of the total number of distribution channels we'll have from a retail perspective? So, looking at 23,000 for this year, what do we anticipate moving forward?

DEPUTY DIRECTOR HASEGAWA: Based on the past trends, probably we will grow, in addition to the 200 Walmarts, we typically grow a few hundred each year, pre-pandemic, obviously, and kind of assume that kind of level, so it might put us in the mid-23,000s by year end.

COMMISSIONER STERN: Great, thank you, and then second question. New topic: To some of the 53 new Scratchers games, can you highlight or share any sort of exciting forthcoming brands that we might be rolling out, if you can at this time?

DEPUTY DIRECTOR HASEGAWA: I don't know of anything that's finalized. I don't want to misspeak. I know in the -- this planning year, we've tested a lot of things, but maybe Sharon can give the final word since it's their decision to make.

DEPUTY DIRECTOR ALLEN: We're still finalizing a lot of things, but some of the fun games we look forward to that appeal to both our core audiences and our casuals are continuing the Crossword exploration; we're looking at a Scratch and Sniff, Pumpkin-Spiced Latté, to come out this Fall. We know that that Pumpkin-Spiced Latté takes over everything, it seems like, so we want to tap into that as an exciting new experience. We did Scratch and Sniff in the last holiday season (audio malfunction) from its payout. We also are really excited about a -- fits fall-themed -- of an Addams Family tie-in Scratchers with classic (audio malfunction). We show the brand still resonates, and we'll maybe do a couple of snaps and a theme song. We also have several exciting products for holidays, game theme towards holidays. We know that that is a big gift-giving opportunity. So that's just a few highlights for right now, and we'll continue to finalize later in the year, looking at some plans to board games as well with (audio malfunction), which always does very well for us.

COMMISSIONER STERN: Fantastic. Thank you. It's always a lot of fun seeing the new games come out, so I'm --

DEPUTY DIRECTOR ALLEN: Indeed.

COMMISSIONER STERN: -- looking forward to it.

DEPUTY DIRECTOR HASEGAWA: That is definitely the fun side of this business, yeah, having -- as speaking

as a former Scratcher product manager, thank you.

COMMISSIONER STERN: No further questions on my end. Okay.

CHAIR AHERN: Any other Commissioners have any questions? Go ahead.

COMMISSIONER MILLS: Sure. I do have a question, a couple of questions, actually. Thank you, Jim, for the presentation. I always love the way that you're able to find to (audio malfunction) the large, ginormous, complicated organization in a way that we can all understand. I do have a question on the goal numbers, too, on the retail. The -- it's a phrase that I don't -- I'm not familiar with, where we're going to explore new in-line methods of selling tickets. Can you say a little bit more about what that means and what --

DEPUTY DIRECTOR HASEGAWA: Yeah, in-line. So right now, if you go to a supermarket or to the Walmarts we're taking about, you would be purchasing a Lottery ticket through a self-service machine that's not in the lane that when you -- at the cash register, essentially.

COMMISSIONER MILLS: I see.

DEPUTY DIRECTOR HASEGAWA: Unlike, at say, a gas station or a convenience store, when you buy a Lottery ticket, you're actually going, like, to the clerk at the register when you're checking out and buying your other

goods. So, it does require in what we call a multi-lane retail environment to go through two steps. You've got -- you're buying your other goods through the register lane; then you've got to go to a Lottery (audio malfunction). So, there are solutions being offered that allow the customer to actually purchase their Lottery ticket in the lane of, say, a supermarket, or maybe it will allow us to get into, like, club stores. So that what we meant by "in lane," and all, and it's something that a lot of lotteries across the U.S. are looking into and experimenting with, and so we're going to tap into some of that knowledge and see how it might apply here in California.

COMMISSIONER MILLS: Okay. That's super-helpful. So, it just reduces a step for our consumer to make (audio malfunction). The other thing in the same goal, it talks about researching new trade channels to sell our tickets, and I've heard you talk about the, you know, the plan and kind of the dynamics of the pandemic and post-pandemic now a couple of times in that, you know, people are now in airports more, and they're in movie theatres more. I mean, are those options for us to think about to go where the people are going?

DEPUTY DIRECTOR HASEGAWA: Yes. Some of it may require transforming things within the Lottery. An example I want to provide is we have CVS retailers right now. And

many, many years ago, which I can recall because I was here then, is that CVS really didn't want to handle the product the way that other retailers did, and so the Lottery embarked on an initiative to understand what the retailer's needs are and totally came up with a different retail model, which is the route sales model that you understand today. And that was clearly designed to meet the needs of that chain retailer, CVS. So, the same thing might apply here with other trade channels that haven't adopted or haven't come on to the Lottery before. We might not only try to sell them on the benefits of the Lottery, but in some cases, it might require the Lottery to look into the needs of its customer, the retailer, and modify some of its processes or business models. So, it's quite a large -- it could be a very large undertaking, and that's why there's a not a lot of detail because we would have to have those discussion with those prospective customers, clients.

COMMISSIONER MILLS: Thank you. That's helpful.

DEPUTY DIRECTOR HASEGAWA: Uh-huh.

COMMISSIONER MILLS: Other things -- one on improving the knowledge of perceptions. I know you guys have heard this from me before, but I really look forward to (audio malfunction) -- "telling" aspect of this goal and hearing more about our direct impact on students and how our funding is, you know, impacting students' lives in their

educational journeys. And then the last thing I just want to say is congratulations on meeting your \$2 billion goal. (audio malfunction) -- really incredible. And my last question is how will you celebrate?

DEPUTY DIRECTOR HASEGAWA: I don't know; how will we celebrate? And since it really wasn't in the budget, it wasn't planned, and kind of we got additional sales this year, so it wasn't like we had a lot of time to kind of prepare for this.

COMMISSIONER MILLS: I do think -- seriously, I do think it's important to celebrate this important milestone. I know when we get to the budget that, you know, it's sort of a correction this year, but this is huge. You set a big, audacious goal, and you've achieved it, and I think it's really important to promote and celebrate that (audio malfunction).

DIRECTOR JOHNSON: If I may, I'll just mention, first, Commissioner, thank you so much for that suggestion. We spend so much time studying the numbers and checking the numbers and checking again, you know, hitting milestones, that we want to celebrate is really important, and we need to do that and make sure folks know that we are definitely hitting our goal in terms of increasing the support for Public Education in California and (audio malfunction) our products, and \$2 billion is a key milestone in that effort.

So, I think once the final audited numbers come in, the (audio malfunction) then we'll certainly look for opportunities to get some publicity on that and talk about what the Lottery has accomplished in it's life.

CHAIR AHERN: Any other questions? Okay. Does any member of the public want to address the Commission at this time regarding Action Item 9a? Hearing none, do I hear a motion to approve Action Item 9a, the Fiscal Year 2022-2023 Business Plan?

COMMISSIONER MILLS: Move to approve.

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

MS. ALVIDREZ: Second.

CHAIR AHERN: We have a motion and a second; will the Secretary please call the roll?

MS. TOPETE: Mr. Kirtman?

COMMISSIONER KIRTMAN: Yes.

MS. TOPETE: Commissioner Stern?

COMMISSIONER STERN: Yes.

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: (No audible response.)

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. (audio malfunction). Thank you very much. Well done, Jim. Appreciate it. Next, we'll go to the sanitation plan. Then we'll do Action Item 9b, which is our Fiscal Year Budget by Nick. Sorry. Good morning, Nick.

DEPUTY DIRECTOR BUCHEN: Good morning. While I'm getting myself ready here, I do want to apologize. I couldn't get my presentation under half-an-hour, and try as I might, and Nate, I'm sorry; I don't have any snazzy slide transition for you.

COMMISSIONER KIRTMAN: Where's the fire, Nick? Jim won today.

DEPUTY DIRECTOR BUCHEN: All right, good morning, Commissioners, Chair.

CHAIR AHERN: Good morning.

DEPUTY DIRECTOR BUCHEN: I'm here to present the Lottery's Fiscal Year 2022-23 Budget for you approval. I'll be going over a lot with you this morning, so please stop me at any time if you have any questions for clarification. As included in our 2022-23 Business Plan, which you just adopted, there are five key objectives for investment in this budget to enable us to continue and increase our contributions to education and all initiatives in this budget tie back to at least one of those objectives. Although my presentation today is going to be more of a

high-level summary of the major elements included in our budget and the reasons for our year-over-year dollar changes, I want you to feel confident voting on the budget, knowing the level of analysis, detail, and scrutiny that truly goes into preparing the Lottery's annual financial plan.

So, this chart and the ones that I'll go over with you today compare our estimated revenues and expenditures for the 2022-23 Fiscal Year to our estimate of how we will end the current fiscal year later tonight. And don't bother squinting your eyes to make out the detail on this slide; I'll cover each major section separately. As I walk through each section, I'll highlight the major changes from the Draft Budget that I presented last month and just a reminder that all dollars in these slides are in thousands. As you know, the Lottery's budget is a basic formula comprised of four major elements: ticket sales revenue minus the associated prize expense minus our administrative expenses is the contribution to education. So, for the first of those major elements, Sales, you can see at the bottom of the middle dollar column that we are projecting a total of \$8.54 billion in sales revenue for Fiscal Year 2022-23. The bottom of the far-right column shows that this is a decrease of \$418 million from the total sales level with which we are projected to end the current fiscal year. This represents a

4.7 percent decrease. As I explained in last month's Draft Budget presentation, this year-over-year decrease is due to an abnormally high level of sales we achieved in this current fiscal year, resulting from certain consumers spending significantly more on the Lottery than they otherwise would have, given that they were either unable to participate or uncomfortable with participating in other forms of entertainment and leisure during the pandemic. This factor is leading to a projected year-over-year decrease in sales in every game except Mega Millions. For Mega Millions, consumers recalibrating their leisure and entertainment spending is also impacting the sales estimate, but this is more than offset by the assumption that Mega Millions will have more typical roll patterns during 2022-23. We had lower than expected Mega Millions sales in the current fiscal year due to having relatively low jackpots throughout the year, so this is why Mega Millions has a projected year-over-year increase. This year-over-year display of our projected sales can mask the performance we are estimating to achieve in the coming fiscal year. So, to help frame our projected sales level for 2022-23, it totals over \$1 billion more than the sales we experienced in 2018-19, which was the full -- the last full fiscal year prior to the pandemic. In addition, it's almost \$2 billion higher than the suppressed sales we experienced in 1920 [sic]

during the pandemic, and it's still more than \$120 million higher than the robust sales we experienced in the 2020-21 fiscal year, which was artificially high due to us shipping more Scratchers tickets than typical. The restocked retailers depleted ticket supplies from the previous year. So, we're clearly still on a growth trajectory, and this helps illustrate the anomaly we experienced in sales in this current fiscal year. Compared to the sales projection I presented in the Draft Budget last month, the only estimates that have changed are the 2022-23 projections for Powerball and Mega Millions. These two projections increased by a total of \$30 million combined compared to the Draft Budget, to account for rising interest rates, which will allow advertised jackpots to reach more meaningful levels more quickly. Before moving on to the next section of the budget, I do want to caution that there's a fair amount of uncertainty in our revenue projections for the coming fiscal year. In addition to the shift in entertainment spending as a result of other forms of entertainment and leisure being more prevalent again, we are experiencing unprecedented levels of inflation, and these are bringing higher costs to entertainment and leisure activities, such as air fare, restaurant prices, and gas prices for vacations involving travel by automobile. We simply can't say with certainty how this will all impact Lottery sales.

The next major area of the budget is Prize Expense, which is projected to total \$5.7 billion in 2022. This is a decrease of \$212.6 million from the current-year projection. This year-over-year decrease is driven by the overall year-over-year decrease in sales. And beginning with last year, the Lottery has a policy requiring the Director to make a determination that prize expense levels across all games have been optimized for the coming fiscal year. To effectuate this policy, the Sales and Marketing, Business Planning, and Finance Divisions considered the analysis conducted for the Lottery last year to determine the optimal prize payout rate, as well as looking into other factors. Because Scratchers sales account for more than 75 percent of our total revenues, and the Lottery has more direct influence on the sales of these tickets, we considered several product-plan scenarios for Scratchers with varying price-point assumptions to identify the optimal mix yielding the highest estimated contribution to education in absolute dollars. The combined impact of this effort shows on this slide that the total projected Prize Expense for Fiscal Year 2022-23 representing 67 percent of total projected sales. This is on the upper end of the range of 65 percent to 67 percent that was recommended as being optimal in the analysis that was conducted for the Lottery last year. With this, the Director has determined that

prize payout levels across all games have been optimized for the coming year. You can also see on this slide that our current-year Prize Expense is estimated to total 66.3 percent, which is also within the optimal range. And similarly, our Prize Expense for the previous fiscal year ended up being 66.7 percent of total sales, which is also a (overlapping) --

And now we're on to Administrative Expenses, which the Lottery Act caps at 13 percent of total annual sales. The first area of Administrative Expense is Retailer Compensation, which is estimated to total \$588.5 million in 2022- (audio malfunction). This is a decrease of \$31.9 million, or 5.1 percent from the current-year projection. It results from the estimated year-over-year decrease in sales. Also included within Administrative Expense and shown on the slide is our Gaming Costs, and these are estimated to total \$154.2 million in the coming year, which is a decrease of \$732,000 or 0.5 percent from the (audio malfunction). As with Retailer Compensation, the estimated year-over-year decrease in Gaming Costs is driven by the decreased sales projection. However, this decrease is partially offset by projected increases in Scratchers Ticket and Delivery costs. This is due to having more Scratchers games with licensed properties and more games with specialized printing features, such as holographic paper, in

the coming year, and this appeals more to casual players and provides added value. In addition, we expect higher delivery costs due to a contractual fuel surcharge. Prior to the Draft Budget I presented last month, Retailer Compensation and Gaming Costs for Fiscal Year 2022-23 are projected to be \$8 million higher. This is mostly attributable to the increased sales projection for Powerball and Mega Millions, as well as refining the amounts budgeted for some of the Retailer Compensation elements. The final area of Administrative Expense is Operating Costs, which are estimated to total \$367.5 million in 2022-23. This is an increase of \$105.2 million from the current-year projection. However, this bottom-line, year-over-year comparison is somewhat misleading, since approximately two-thirds of that increase is attributable to reflecting two reserves in Fiscal Year 2022-23 but none in the current-year projection. I'll talk more about the Reserves a little later, but if we exclude them for now, the year-over-year increase in Operating Costs is projected to be \$35.9 million. Now I'll detail this increase by going over this entire section line by line. The first item within Operating Costs is Personnel Services, which is projected to increase by \$3.3 million over the current fiscal year, primarily due to the inclusion of 45 new positions needed to address critical operational needs. I will discuss these proposed new positions in

detail a couple slides from now. In addition to funding for the new positions, this line also includes funding to continue ten limited-term positions in the Northern Distribution Center to maintain a second shift to meet the processing needs until our remodel of that facility is (audio malfunction). Moving on to the second line within operating cost, the Marketing Budget Plan reflects an estimated year-over-year increase of \$12.9 million, and that's primarily comprised of two elements: First, \$15.5 million is included in the 2022-23 budget to support a jackpot game category support effort, which is part of an overall strategic shift to help build sales of our jackpot games outside of Lotto Fever periods and to lower barriers to play for casual players by changing perceptions. This effort will help retain some new players regained over the last couple of years and bring front-of-mind awareness that Draw Games are fun, which is even more important now that many other entertainment options are once again available. The second main component driving the year-over-year increase in Marketing, is \$3 million to secure a Public Affairs agency contract to help develop and execute a strategy that uplifts the Lottery's mission and positions the Lottery in a favorable light among California adults. This effort is designed to amplify the Lottery's mission; help the public through transparency and storytelling;

understand how the Lottery works; where Lottery funds are spent; and how California benefits from having a State Lottery. This will bolster public confidence and support and ultimately help generate more supplemental funds for public schools. Partially offsetting the increased costs for these two new marketing initiatives is less being budgeted in the coming year to continue the Scratchers category repositioning effort that began in this current fiscal year. And this is still an important initiative, and it emphasizes the fun and entertainment aspects of the Scratchers product line to build stronger appeal for Scratchers, particularly among its casual players. The decrease is due to the second half of the coming fiscal year. We will be utilizing less expensive audio and streaming media for this initiative. Moving down to the Contractual Services line, the projected year-over-year increase of \$11.1 million is a combination of less being spent in the current fiscal year than originally estimated on some projects, as well as some new or increased Contractual Services efforts that will be underway in Fiscal Year 2022-23. An example of less being spent is on a project to remodel our Northern Distribution Center. This project entails the installation and additional Scratchers ticket Pick and Pack stations and warehouse racking; replacement of the roof; and the replacement of the heating,

ventilation, and air conditioning system. The bulk of the work for this effort was not able to be conducted in the current fiscal year; it will instead be undertaken in the coming fiscal year. And an example of additional investment in existing Contractual Services efforts is funding for contracts to enable our Information Technology Services Division to modernize our public website, upgrade Microsoft Azure, and including direct support from expert-level Microsoft designated Support Engineers in the Lottery's renewal of the Microsoft Unified Performance Level Support Agreement that you adopted in last month's Commission Meeting. Moving to the next line, Appreciation Costs are projected to increase by \$1.7 million. That's primarily to acquire new vehicles to replace our vehicles that have hit the mileage threshold. Next is Operating Expense, which includes typical overhead items such as Telecommunications, Expendable Equipment, Facility Maintenance and Operations, and Utilities. This reflects an estimated year-over-year increase of \$6.9 million and this is primarily due to planned building alterations and to accommodate modular furniture procurement, reconfiguration, and installation for the Lottery's Non-Emergency Telework Program. The last two items within Operating Costs are the Reserves. In the current year, we've zeroed out the Reserves since anything that is to be funded from them has already been reflected as

an expenditure in the other Operating Cost lines that appear above the Reserves. For Fiscal Year 2022-23, we are again maintaining a \$5 million reserve for insurable risk to cover fiscal exposures for the areas of our organization that we are self-insuring. As shown on the next line, the 2022-23 Budget also includes \$64.3 million for an Administrative Spending Reserve. This amount is derived by formula and is 13 percent of our total sales projection minus the sum of all the administrative expense items above this line, including the Retailer and Gaming costs from the previous slide. This Administrative Spending Reserve acts as a safeguard against uncertainties such as if our sales do not come in as projected and allows us to maintain operations if unanticipated needs arise during the year. This is especially important since in zero-basing the budget, we only include funding for items that are certain to be needed. We do not build in contingency funding for things that may or may not happen. To that end, we had several requests for funding that had merit but did not make it into the budget because there were uncertainties, primarily with the timing of when or even if the funding would be needed in the coming fiscal year. We are maintaining an itemized list of these requests, and I prioritized them to be funded from the Administrative Spending Reserve to the extent they come to fruition during the course of the fiscal year. These

items total \$13.7 million at varying degrees of probability to occur. It's highly unlikely that we will need to transfer all of this during the fiscal year, but we will continue to track these items as the year goes on. So, looking at the bottom line, the total Administrative Expense, which is the sum of the Retailer Compensation, Gaming Costs, and Operating Costs, including both of the Reserves, is projected to be just over \$1.1 billion in 2022, and this is precisely 13 percent of the \$8.54 billion in projected sales.

And pursuant to the Lottery Act, which prevents us from retaining earnings from year to year, any Unspent Initiative Funds below the 13 percent cap, including unspent funds in both reserves, will be transferred in their entirety to education. It's important to highlight that the Lottery typically spends well below the cap each year, and it's transferred more than \$1.2 billion in administrative savings to education to date. Excluding the Reserves, compared to the Draft Budget I presented last month, Total Operating Costs for Fiscal Year 2022-23 are projected to be just over \$5 million higher. Three million of this is for the Public Affairs Agency contract I spoke of, and \$1.1 million is to reconfigure the office space in light of the Non-Emergency Telework Program that the Lottery is in the process of developing. Both of these efforts were still

being developed and finalized when I presented the Draft Budget last month.

This slide summarizes the resources needed for the proposed initiatives and other revisions that are reflected in the Administrative Expenses for Fiscal Year 2022-23. Costs for these items are listed on this slide, but in the most applicable of the five key objectives from our 2022-23 Business Plan. In addition, the line directly above the totals reflects a modest investment in other critical operational needs that do not fit cleanly within one of the five objectives. Approximately \$3.8 million of this \$63.8 million total shown here is to fund 45 new requested positions for the Lottery, which fall into two broad categories: positions needed to enable the Lottery to provide a higher level of service to our external and internal stakeholders and positions needed to strengthen our internal processes and provide the back-end support necessary to keep pace with our growth and to proactively prevent deficiencies. All 45 of the requested new positions directly relate to the Business Plan objective to transform and modernize the Lottery.

And this slide shows how these 45 new positions break out between the two categories that I just mentioned. The first bullet shows that 28 of the requested new positions are to provide enhanced-level customer service to

our internal and external stakeholders. This is comprised of the following: sixteen of these positions are in the Sales and Marketing Division. Two of these are needed to reduce wait times and a lower abandonment rate for players given the increased call volume the Lottery's Customer Service Center now experiences. Eight of these positions are needed in the Lottery's Southern Distribution Center to keep pace with an increased number of ticket orders per month. Five new Sales and Marketing positions are needed to support growth in the Lottery's retailer network, including the addition of 212 Walmart Supercenters and to maintain an ideal ratio of District Sales Supervisor to District Sales Representative positions to ensure effective staff management. The remaining new position for Sales and Marketing is needed to better meet business needs of the Lottery's Route and Sales Model in the San Diego District and reduce the need for overnight travel. Two of the 28 positions reflected in this bullet are needed in the Finance Division. One of these is needed to provide more focused attention on the post-payment process of prize claims, more effectively address prize claim correspondence, (inaudible) complications, State Controller audits relating to prizes, and this is needed as the Lottery continues to pay out more prize (audio malfunction). Another position is needed in the Finance Division to enable the Budget's team to become

more embedded in their assigned program areas and refine the Lottery's zero-based budget process to ensure resources are appropriately being budgeted. Although this represents a new permanent position for the Lottery, the current incumbent has worked in the Budget's unit for the last several years and has been funded out of the Temporary Help blanket. One of these 28 positions is needed in the Business Planning and Research Unit to conduct additional research and analysis projects for the Lottery. For the past several years, there has been more research requested than there have been resources to conduct the research. One of the 28 positions is in the Information Technology Services Division, ITSD, to increase capacity for administering and support of the Lottery's Service Now Enterprise Software (audio malfunction) and will also help address a growing number of Service Now initiatives that are in flight. Two of the 28 positions are needed in the Operations Division to provide support and resources to Operation staff and management, both in Northern and Southern California, to enable the Division to deliver an enhanced level of Lottery-wide support as compared to current resource levels. Lastly, three of these 28 new positions are in the Security and Law Enforcement Division, SLED. Two of these positions are needed to meet the increasing workload of Lottery retailer applications and

administrative sanctions. One of these positions will address the increased number of prize claims requiring a security review to provide more timely resolution and faster prize payouts for the impacted claimants. And showing on the second bullet of this slide, 17 of the new positions are needed to make our internal processes more robust. This breaks out as follows: Ten of these positions are in Operations. Six of these relate to a reorganization of the Operations Division's Facilities and Fleet Management Branch, which is needed to address the Lottery's long-term space and facility needs to ensure the Lottery's growing fleet, asset management, and property control needs are met. In addition, these positions will ensure Lottery facilities are maintained in a manner to reduce major renovations in the future, will also address gaps in the oversight and timely execution of facilities in Southern California. Another four of these new positions relate to our reorganization of the Operations Division Business Administration Section, which is needed to enable increased oversight of key activities and functions required to support automated systems and manage projects. These positions will support the increased workload associated with the Lottery's growing number of enterprise-wide policies, processes, procedures, and forms, and will also help to ensure ADA compliance. And these positions will

support the project management needs of the Division for non-enterprise-wide projects to ensure that Operations projects are properly tracked, funded, and executed efficiently. One of these 17 positions is needed in the Business Planning and Research Unit to facilitate the workload related to the Annual Business Plan Development, an ongoing strategic objective process. It will enable higher-level strategic planning and initiative development for the Lottery. One of the 17 new positions is needed in the Finance Division's Accounting Unit for analytical research and reconciliation of financial records and reports. This position will help reconcile financial variances between systems, modules, and general ledger accounts. Five of these positions are in ITSD and are needed to address existing resource gaps related to IT procurement, technical analysis, application development work in the Software Engineering domain, and to help keep the Lottery's technical environments and services secured. The remaining three of these 17 positions are in SLED and will address increased investigator workload in the Sacramento and Bay Area Regions, as well as aid in the deterrence of cash-stolen tickets. And as I discussed last month, although there is only a negligible impact to the Lottery's funding, we are also increasing the Lottery's position count by 49, to more appropriately convert many of our permanent and intermittent

positions to permanent, full-time, and to use permanent funding for the remaining permanent intermittent positions. As I explained last month, this brings transparency to the number of employees actually required to run the Lottery. It is important to note that the Lottery's total expenses for Personnel Services, which comprises salary and benefit costs of all Lottery employees, including the requested 45 new positions, as well as temporary help and overtime, are estimated to be only 1.4 percent of total projected revenue for Fiscal Year 2022-23.

So, I spent a lot of time talking about positions that are other Administrative Costs, so I think it's helpful to provide some context. Assuming the Reserves remain unspent, adding up all but the purple slice of this pie reflects that almost 82 percent of our projected, estimated expense -- projected Administrative expense for Fiscal Year 2022-23 is comprised of Retailer Compensation, Gaming Expenses, and Marketing Costs. These three components of our Administrative expense are unique to our business operation and directly influence our sales and funding for education. The other operating cost, which is our overhead, is estimated to account for just over 18 percent of our total Administrative expenses and only 2.2 percent of projected sales for the coming fiscal year. So, this speaks to us doing a tremendous job of managing the costs within

our control, which enables us to maximize our contribution to education, which of course is the whole reason we exist. Sales minus prize expense minus administrative expenses actually equals our net operating income. There are a few additional items that determine the final contribution to education amount. Specifically, both unclaimed prizes and interest earnings on the cash that sits within the State Treasury are mandated to be transferred directly to Education. In addition, any unspent funds within both Reserve line items also will be transferred to Education. So, assuming both Reserves remain unspent, total contribution to Public Education is estimated to be just under \$1.81 billion 2022-23. As wonderful as this is, you can see that this is a decrease of \$212.4 million from the amount of funding we're estimated to provide to Education this current fiscal year. This again is a function of the anomaly that occurred in the current fiscal year as certain consumers spent significantly more on the Lottery than they otherwise would have.

This last slide better portrays the performance we're projecting for the coming fiscal year. This chart shows how our sales and contribution to Education have trended over the last 21 years and also includes our projection of how we will end this current fiscal year, as well as the proposed budget for the coming year, assuming

the Reserves remain unspent. And unlike some of the Lottery charts that have appeared in the press and in audit reports, this chart is properly scaled. The gold bars reflect our sales revenue, and the blue line reflects our contribution to Education, excluding unclaimed prizes and interest earnings. The vertical line down the middle of the chart reflects when Assembly Bill 142, the legislation that authorized higher prize payouts, was fully implemented. You can see that not only have our sales risen sharply since AB 142 was enacted, but more importantly, our contribution to Education has continued to increase, which was the whole point of AB 142. Even though we're estimating our sales and contribution to Education in Fiscal Year 2022-23 will be less than what we experienced in this current fiscal year, you can clearly see that our projected sales and contribution to Education are still trending upwards, especially as compared to the years prior to AB 142. And speaking of AB 142, one of its ongoing requirements is that the Lottery's net revenues allocated to public schools, as reflected in the Lottery's proposed budget, are at least as much as were allocated on average the prior five fiscal years. So, including our projected net revenues for the current fiscal year and excluding unclaimed prizes and interest earnings in all years, the average of the contribution to Education for the past five years is just

over \$1.7 billion. The 2022-23 budget I just presented has a contribution to Education of approximately \$1.8 billion, assuming the Reserves remain unspent and excluding unclaimed prizes and interest earnings. We have therefore met this requirement for the coming fiscal year.

With that, I'd quickly like to recognize my amazing team who builds the Lottery's budget and tracks the spending throughout the year. This team is comprised of our Budget Officer Bret Grosso and six analysts, Larry, Janae, Ruth, Britt, Greg, and Francisco. Thank you all for your amazing help. That concludes my presentation. I'm happy to take any questions.

CHAIR AHERN: All right, thank you very much. Do we have any questions for Nick regarding the budget?

COMMISSIONER STERN: First and foremost, thank you so much for the presentation. I do have a quick question as it relates to the retailers again that we're onboarding. Understand the reason why we're going to have a dip this year with the reallocation, and thanks for the explanation on that. Just a quick question on the retailers. As we're onboarding new retailers, how long does it take to get them to their full potential? The Walmart, is that -- obviously, their customers need to digest that it's there and understand that they're there, so just curious. I'm not (overlapping).

DEPUTY DIRECTOR BUCHEN: Yes, that's a good question. So, we do factor in kind of the onboarding period necessary, and it's typically at least a full year before they achieve the full potential, and it's on both the retailers as well as on the Lottery ensuring that we're properly servicing the new (audio malfunction).

COMMISSIONER STERN: Okay. Thank you.

CHAIR AHERN: Any other Commissioners have any questions? Go ahead.

COMMISSIONER MILLS: So, thank you, Nick for your presentation, I also admire the way you're able to (audio malfunction) bring it so clearly. My first -- so, my first question is on the slide of the Summary of Funding Needs by Objective, and you spent a lot of time on the Personnel, which I appreciate. I wondered if you could just say a little bit about, like, what are the attributes that caused you to pull these particular expenses out? I assume these are all baked into the budget. They're incremental, they're new, they're -- can you say a little bit about, like, why you chose to highlight them?

DEPUTY DIRECTOR BUCHEN: Sure. So, these are the more -- things that aren't just, kind of quote-unquote to "keep the lights on." So, these are the things that Lottery is investing in to either do something new in the coming year or set the stage for future years. These really are

the more new, incremental costs compared to the rest of the budget.

COMMISSIONER MILLS: Thank you (audio malfunction). And then my second question is around the administrative Gaming costs, and you talked about the process for reviewing the like optimal prize payout. Is there a similar process for looking at the Gaming costs? ((audio malfunction)). I saw that, you know, sales are coming down. Some of those administrative gaming costs were coming up, and (audio malfunction) in the new games and think that -- which we need to get people excited about the new games. What sort of analysis takes place to make sure that those administrative costs are also being optimized?

DEPUTY DIRECTOR BUCHEN: So, I can say that based on your similar question in the Draft Budget, we actually do have a team that's looking more into this, but you know, I can say that we conduct research; we look at other factors. It is, like I said, known that the games with the, you know, fancier paper tend to attract the more casual players and provide our, you know, existing, our core players with a better sense of -- you know, there's added value for their dollar to purchase those tickets. So, we know that having a healthy mix of those types of games, as well as kind of the standard games does lead to increased sales.

COMMISSIONER MILLS: And then my last question is,

I wondered, Director Johnson, if you could just say a few words about the process that you went through to review the information and your confidence in the certification of the optimal prize payout in this budget?

DIRECTOR JOHNSON: Certainly. Thank you for the question. Our team prepared about four different scenarios that look at different ways we can meet our revenue and profit goals. And since about 77 percent of our revenue comes from Scratchers, these different scenarios looked at a different mix of the Scratchers games and price points, whether it's \$1, \$3, \$30, and so they would kind of adjust. You know, a little more of these, a little fewer of those, that sort of thing. Also, one of the scenarios was simply comparing the plan to what we did in the prior fiscal year just to make sure that we could have (audio malfunction) -- apples comparison. And so, there are slight variations, but it was clearly indicated that with the current mix that we're proposing, we're going to achieve the most absolute dollars to Education . It comes out in terms of a prize payout optimum to about 67 percent, which is the high end of the range that the consultant determined was the ideal range, that it's from 65 to 67, but it's consistent with prior performance of the Lottery's Business Plans, and it's clearly indicated that this is the best way to generate the most actual hard dollars for schools.

COMMISSIONER MILLS: Thank you.

CHAIR AHERN: Any other Commissioners have any questions? And I just had a follow-up from one of your slides about new positions for -- 28 positions to provide greater customer service and 17 for internal processes. And what we're seeing in our industry is we can't find people for employment, from criminologists, or dispatchers to record clerks, or sworn people, non-sworn. Are you having problems recruiting in your HR for those positions?

DEPUTY DIRECTOR BUCHEN: We -- certainly, and we also have some like higher-level classifications that are kind of unique to State service that we have difficulty recruiting people from the private sector for. So, we're trying to explore additional ways to recruit. Like, we're using LinkedIn, some of the platforms that we haven't typically used in the past, beyond, just, like, the California Human Resources (audio malfunction). So, we're having challenges like (audio malfunction).

CHAIR AHERN: Just wondering if it's a standard (audio malfunction). All right. Thank you.

DEPUTY DIRECTOR BUCHEN: Uh-huh.

CHAIR AHERN: All right. Does any member of the public wish to address the Commission at this time regarding Action Item 9b? Hearing none, do I have a motion to approve Action Item 9b, Fiscal Year 2022-2023 Budget and

Presentation? 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: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. All right, your motion passes. Thank you very much.

DEPUTY DIRECTOR BUCHEN: Thank you.

CHAIR AHERN: Moving on to the sanitation plan. We'll go to Action Item 9c, is the next thing on our agenda, which is the Extension and Addition of Funds to the Time Advertising Contract. Sharon Allen?

DEPUTY DIRECTOR ALLEN: Good morning.

CHAIR AHERN: Good morning.

DEPUTY DIRECTOR ALLEN: I don't have any slides or transitions.

CHAIR AHERN: We want slides.

DEPUTY DIRECTOR ALLEN: I'm sorry.

CHAIR AHERN: How can we work without PowerPoint?

DEPUTY DIRECTOR ALLEN: I'll be right back.

CHAIR AHERN: That's impossible. It's like real conversation without looking at things. Will I need my iPhone?

DEPUTY DIRECTOR ALLEN: All right, and I won't go a half-hour.

CHAIR AHERN: It's only 15 years old.

DEPUTY DIRECTOR ALLEN: All right. I'm here to present Item 9c, Extension and Addition of Funds to the Time Advertising Contract. The Lottery currently contracts with Time Advertising for Asian market advertising services. Time is responsible for assisting the Lottery in overall market analysis, strategy development, and creation and production of in-language advertising assets that communicate directly with Asian consumers in California. In 2015, the Commission awarded Time a five-year contract with an option to extend for two additional one-year terms, and an expenditure authority of \$21 million. Both extension options have been exercised, and the contract is set to expire this November. This request is to exercise the emergency extension option and extend the contract by nine months. Lottery marketing agency procurements are normally staggered to avoid overlap, as they require a significant

amount of staff time and resources. The Lottery is currently conducting a formal solicitation for a new promotions and retail marketing agency, which was delayed due to changes in the Lottery procurement process. Lottery's Marketing Team has begun preparing a formal solicitation to secure a new contract for Asian market advertising services; however, it will not be completed before the current contract expires. Over the course of the contract, Time has consistently provided a high level of service, and this extension will enable the Lottery to address this segment in a relevant and effective manner without interruption. The Time contract currently has approximately \$640,000 of remaining funding. To allow the Lottery to have sufficient funding until the current and proposed term ends in August of next year, Lottery staff recommends increasing the contract expenditure authority by \$7.6 million. The additional funding is required to carry out marketing efforts that will support next year's Business Plan, which includes the ongoing support of the Scratchers category effort, jackpot alerts, and a planned effort to support the jackpot game category. Staff recommends the Commission approve a nine-month extension to the Time advertising contract and an additional \$7.6 million in funding. The new contract would expire on August 7th, 2023, and will have a maximum authorized contract expenditure of

\$28.6 million. And with that, I'd be happy to answer (audio malfunction).

CHAIR AHERN: Okay. Do any other Commissioners have any questions or comments regarding the Action Item 9c? Without PowerPoint. Okay. Does any member of the public want to address the Commission at this time regarding Action Item 9c? Hearing none, do we have a motion to approve Action Item 9c, Extension and Addition of Funds to the Time Advertising Contract?

COMMISSIONER STERN: Motion to approve.

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

COMMISSIONER ALVIDREZ: (No audible response.)

CHAIR AHERN: 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: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: (No audible response.)

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. All right.

DEPUTY DIRECTOR ALLEN: Thank you very much.

CHAIR AHERN: The motion passes. Thank you very much. The next Action Item is 9d, the Draw Auditing and Review Services Contract. Sara?

DEPUTY DIRECTOR SHEIKHOLISLAM: (audio malfunction) Director Johnson. My name is Sara Sheikholislam, and I'm the Internal Audit Director here at the Lottery. I am presenting on the proposed Draw Auditing and Review Services Contract. Government code requires drawings to be witnessed in person by an independent contractor. The contractor is required to participate in daily Draw observations, clarifications, and certifications and to report compliance with agreed-upon Lottery procedures. The current contractor is KPMG. The contract began August 1st, 2016 and is going to expire July 31st of this year. With the contract expiring, a new Request for Proposal is required. An RFP was issued in December of 2021. Zero proposals were received; therefore, we went out again, re-solicited it in March of 2022. In response to the re-solicited RFP, the Lottery received one qualified proposal from Preston CPA. The evaluation of the proposal determined Preston exceeded the minimum (inaudible) requirements outlined in the RFP. Additionally, the rates were determined to be fair, reasonable, and the best value to the Lottery. Since 2010, Preston has performed Draw

Auditing services for the Georgia Lottery, and therefore brings direct experience and knowledge of Draw Games to the Lottery. The contract is a three-year agreement, with two additional one-year options to extend and will begin July 1st, 2022, or upon final approval, whichever is first, and will end June of 2025. The contract cost is based on an hourly rate of \$95, with an estimated 3,600 hours per year, which amounts to \$342,000. When combined for three years, the total contract funding is \$1,026,000. Lottery staff recommends the California State Lottery Commission approve the award of the Draw Auditing Contract Services with Preston CPA for a term of three years, with a maximum agreement of \$1,026,000 and two one-year optional -- options to extend. I can answer any questions.

CHAIR AHERN: All right. Do any Commissioners have any questions or comments on Action Item 9d?

COMMISSIONER MILLS: Question.

CHAIR AHERN: Go ahead.

COMMISSIONER MILLS: (audio malfunction) RFP (audio malfunction), a change for the scope of work? What changed in that RFP process to bring interest?

DEPUTY DIRECTOR SHEIKHOLISLAM: That's a great question. I am not sure of that answer. I can check and get back to you on that.

CHAIR AHERN: (audio malfunction)?

DEPUTY DIRECTOR SHEIKHOLISLAM: I will let you know. I'll have to check with Operations and if they made any changes.

CHAIR AHERN: Go ahead.

COMMISSIONER MILLS: Chair Ahern, I had a question. Sorry. You talked about other -- the firm is -- it sounds like it's based out of Georgia and has (audio malfunction). So, will the workforce that works on the California (audio malfunction) actually be located (audio malfunction)?

DEPUTY DIRECTOR SHEIKHOLISLAM: They are having one individual move to California. They will be the manager, and then they will be hiring individuals from Sacramento to serve as the auditors.

COMMISSIONER MILLS: Thank you.

CHAIR AHERN: And I understand that KPMG has been a good partner with us; they just are going in another direction and didn't want to apply for the RFP?

DEPUTY DIRECTOR SHEIKHOLISLAM: That's correct.

CHAIR AHERN: Okay. If there are no other questions, does any member of the public want to address the Commission at this time regarding Action Item 9d? Hearing none, do I have a motion to approve Action Item 9d, Draw Auditing and Review Services Contract?

COMMISSIONER MILLS: So, move.

CHAIR AHERN: We have a motion. Is there a

second?

COMMISSIONER ALVIDREZ: 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: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. Action Item 9d passes. We'll go on to Action Item 9e, the Emergency Extension of the KPMG LLP Draw Auditing and Review Services Contract.

DEPUTY DIRECTOR SHEIKHOLISLAM: It's me again.

CHAIR AHERN: Thank you.

DEPUTY DIRECTOR SHEIKHOLISLAM: Saving one life at a day. Okay, so I'm presenting on the Emergency Extension of the KPMG LLP Draw Auditing and Review Services Contract. As mentioned in my prior issue, we have to have an independent contractor to perform services, and our current one is KPMG. They -- their contract will expire on July 31st of this year. An RFP was issued, a new contractor

is undergoing the contract process and is intended to start July 1st. KPMG's contract allows the Lottery to request an emergency extension for up to one year. To ensure Draw Auditing Services continue while the Lottery completes the new contract execution, we are asking for a three-month extension with KPMG, therefore ending services October 31st of 2022. The contract can be mutually terminated any time before that. The current contract rate is \$91 per hour, but this will end July 31st. The new rate will be \$200 per hour for the extended emergency portion, which will start on August 1st. Therefore, it's with full intention of the Lottery to have services start with the new contractor before the rate increase of \$200 per hour. We have sufficient funds remaining in the contract; therefore, no additional funds are required. If an extension is not approved, the Lottery would be at risk of not continuing services and noncompliance with the government code. Lottery staff recommends the Commission approve the emergency extension for three months for Draw Auditing and Review Services through October 31st, 2022. I can answer any questions.

CHAIR AHERN: All right. Thank you very much. Do the Commissioners have any questions or comments regarding Action Item 9e? Hearing none, does any member of the public want to address the Commission regarding Action

Item 9e? Hearing none, do I hear a motion to approve Action Item 9e, Emergency Extension of the KPMG LLP Draw Auditing and Review Services Contract?

COMMISSIONER STERN: Motion to approve.

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: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. All right, thank you very much.

DEPUTY DIRECTOR SHEIKHOLISLAM: Thank you.

CHAIR AHERN: Okay. Item Number Ten is the Commissioner General Discussion. Do any Commissioners have anything they'd like to bring up at this time? Item Number 11 is a tentatively scheduled Commission Meeting on

September 29th, 2022, and although the agenda states December 1st, due to scheduling conflicts, we're looking for -- into an alternative date for that specific meeting. If you have any problems, please contact Elisa. And Item Number 12 is Public Discussion. I'm told we have no one from the public, but we'll call anybody up from the public who'd like to address the Commission. Hearing none, Item Number 13. Nate, do you have anything to add?

COMMISSIONER KIRTMAN: I really would like to thank Alva for all of his -- particularly the last few weeks. You've been a remarkable partner, and you've been a great leader for this (audio malfunction) and thank you. Sheriff, it's been a wonderful ride. It's been a (audio malfunction), particularly with (audio malfunction) and Alameda County. It's been a real treat and work with (audio malfunction) I do (audio malfunction). Paula, Jim, Nick, thank you guys so much for being such terrific partners in educating me about this remarkable organization. I met you guys in my early days, and for all the work that you guys have done and have accomplished. We've had some wonderful laughs and some great PowerPoint presentations. It's really been great working with you. Sharon, it is remarkable to see you here. Thank you for being a partner. You've done a terrific job with Marketing and Sales. I'm very proud to have seen you really spread your wings. And of course, I

can't say enough about Elisa. She has been my Day One, making sure that I stayed within the guardrails of sanity and organization. And Elisa, thank you for welcoming me into your family. I'd -- and for as much work and accomplishment as this organization has had, I don't know that there could have been any prouder experience than to marry your daughter, and I thank you for that. It was -- it's quite a treat to be welcomed into a family the way (audio malfunction), and I know we'll still (audio malfunction). So thank you, everyone. It's been a great decade, and I'm sure I'll be around. Thank you.

CHAIR AHERN: All right. With that said, we'd like to adjourn this meeting, and you're on. And it's been a wonderful run. Thank you for all your years of service. We're adjourned in regard to the great Commissioner Nate Kirtman. A round of applause, please. (End of Recording)

(MEETING ADJOURNED)

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