

**STATE OF CALIFORNIA  
TRANSCRIPT OF PROCEEDINGS**

**CALIFORNIA STATE LOTTERY COMMISSION  
COMMISSION MEETING**

**TIME:** 10:04 a.m.

**DATE:** June 29, 2023

**PLACE:** California State Lottery Headquarters  
700 North 10<sup>th</sup> Street  
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

Keetha Mills  
Vice Chair of the Commission  
Commissioner

Tiffani Alvidrez (arrived at 10:12 a.m.)  
Commissioner

Anthony Garrison-Engbrecht  
Commissioner

**Participating Lottery Commission Staff**

Alva V. Johnson  
Director

Fernando Aceves  
Chief Counsel

Jim Hasegawa  
Deputy Director of Business Planning

Nicholas Buchen  
Deputy Director of Finance

Paula Negrete  
Deputy Director of Legislative and External Affairs

Sharon Allen  
Deputy Director of Sales and Marketing

Elisa Topete  
Assistant to the Commission

Rebecca Estrella  
Recording Secretary

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**June 29, 2023**

**Sacramento, California**

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**CHAIR AHERN:** Good morning, everyone. We'll call our California State Lottery Commission meeting to order, and if you'll all please rise, we'll start with the Pledge of Allegiance, and please join in for the Pledge of Allegiance.

*(The Pledge of Allegiance was recited.)*

**CHAIR AHERN:** All right, thank you. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Present.

**MS. TOPETE:** Commissioner Alvidrez?  
Commissioner Garrison-Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Present.

**MS. TOPETE:** Commissioner Rasouli? Chairman Ahern?

**CHAIR AHERN:** Here and present. Thank you very much. We have a quorum, and we're going to have our other Commissioner join us. Tiffani's in traffic and working hard to get here on time.

With that, we'll start with Item Number 4, the Election of the Chair for the California State Lottery. Chief Counsel Fernando Aceves, will you please review the

rules on the running of elections.

**MR. ACEVES:** Good morning. Okay, thank you, Chair. So, the California State Lottery Act provides that the Commission shall elect annually from its membership the Chairperson: Government Code § 8880.19. Anyone Commissioner can put the name of any Commissioner into nomination, and a Commissioner can nominate himself or herself to serve as the 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 takes three votes to take an action. Chair Ahern will then declare the results of the election.

**CHAIR AHERN:** All right, thank you very much, Fernando, and we shall open the nominations for this position of Chairperson of the Commission. Keetha Mills made a nomination for me to continue as Chair of the Commission, correct?

**COMMISSIONER MILLS:** That's correct.

**CHAIR AHERN:** All right.

**MR. ACEVES:** Thank you, Chair. I would like to note for the record that Commissioner Ahern has received a nomination for Commission Chair. Now, other than Commissioner Ahern, are there any other nominations for the

position of Chairperson of the Commission?

**CHAIR AHERN:** Okay, hearing none, I'll declare the nominations closed, and can we please have a vote by roll call?

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Commissioner Alvidrez?  
Commissioner Garrison-Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. It's a joy to welcome myself. I'm reminded that my last formal election, I wasn't so successful. It's a great joy to me. I appreciate that. I really do thank you very much for your support. Thank you. Okay, Item Number 5 is the -- Commissioners does anyone have any suggestions or changes to today's agenda in any respect?

**COMMISSIONER MILLS:** Chair Ahern, I would suggest that since our fellow Commissioner is stuck in traffic that we re-order the items on the agenda, and perhaps we start with Item 9d and move through d, e, f, and g, and then come back and do a, b, and c at the end of our meeting and hopefully, our fellow Commissioner will be here by then.

**CHAIR AHERN:** Okay. I think that seems reasonable. Any objections to that? Do you have a motion and a second?

**COMMISSIONER MILLS:** I'll move.

**COMMISSIONER GARRISON-ENGBRECHT:** I second.

**CHAIR AHERN:** Okay. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Commissioner Alvidrez?  
Commissioner Garrison-Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. Thank you. Next is Approval of the Minutes. Are there any corrections to the Minutes? Hearing none, do I hear a motion to approve the minutes?

**COMMISSIONER MILLS:** I'll move to approve.

**COMMISSIONER GARRISON-ENGBRECHT:** I'll second.

**CHAIR AHERN:** Okay. For clarification, these are for the Minutes of May 25, 2023. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Commissioner Alvidrez?  
Commissioner Garrison Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Yes.

**MS. TOPETE:** Chair Ahern?

**CHAIR AHERN:** Yes. Okay, Item Number 7 is the

Informational Items. We'll call on our Director, Alva Johnson.

**DIRECTOR JOHNSON:** Good morning, Mr. Chairman and Members. Good to see you all today.

**MEMBERS:** Good morning.

**DIRECTOR JOHNSON:** I will be starting my Director's Report for you today for this month with an update on the year-to-date performance of our games. While the totals on the slide here contain sales through June 17<sup>th</sup>, the exciting news to share is that total fiscal year sales have now surpassed \$9 billion for the first time in our 38-year history.

Several factors contributed to our record-breaking success this year. Despite shifts in consumer demand from coming out of the COVID pandemic and into a wary economy of high inflation, sales for Scratchers had a strong surge over the past couple of months and will meet its goal for the year. As presented last month, efforts such as expanding the popular Crossword-themed offerings to the \$30 price point, the evolution of our Scratchers marketing efforts to show how these games are an easy way to add "a little play to one's day," and the addition of Walmart Supercenters to our retail network have shown very positive impacts on Scratchers sales. But it was our Jackpot Games that really pushed our sales above goal this year.



You have heard several times about this year's astounding jackpots and their resulting sales. Mega Millions rolled to jackpots over \$1 billion twice this year, and Powerball granted a lucky Californian with a \$2 billion prize. Not to be forgotten, even SuperLotto Plus has jackpots currently rolling to its highest level since 2019.

Sales for these three games combined significantly exceed our goal by more than 60 percent, and with their better profit margins, their success doesn't just mean greater sales but also even better contributions to education than expected. And for the cherry on top, our Daily Games and Hot Spot brought in slightly higher sales than expected this year as well. These games benefited from rolling top prizes, greater traffic during our Jackpot Fever runs, and retail efforts that strengthened our network and their retail presence. Each of our nine products and the underlying work and luck that supported them pushed our sales to record-setting levels this year.

But even more important than record-setting sales is our contributions to education this year, which is estimated to end this fiscal year with an all-time record of more than \$2.1 billion and will mark the second time in our history that we have exceeded the \$2 billion threshold. Through May, the estimated funds for education are significantly exceeding our goal by 26 percent. Thanks to

unprecedented jackpots this year and the hard work and dedication of our Lottery staff, this fiscal year is expected to be another record-setting year for education. Based on the strategic objectives and plans that we will be presenting for your approval shortly, I expect our contributions to remain strong in the coming years. This concludes my report, and we are happy to answer any questions.

**CHAIR AHERN:** All right, thank you very much. Do any Commissioners have any questions or comments regarding the Director's Report?

**COMMISSIONER MILLS:** I want to say congratulations on an amazing year, Alva.

**DIRECTOR JOHNSON:** Thank you so much.

**CHAIR AHERN:** I think it's very exciting to see a 126 percent contribution to education. That's a wonderful job by you and your staff, so thank you very much.

**DIRECTOR JOHNSON:** Thank you. Thank you very much.

**CHAIR AHERN:** We'll move on to Item Number 8, which is the Consent Calendar. There are no items under the Consent Calendar, so we'll proceed with Action Items. Due to the motion earlier, we'll start with 9d. 9d, and we'll call on Jim for the presentation. And Jim, before we start, I'd like to welcome our people that are joining us through

our new technology and the wonders that technology team did to allow them to show their interest and join us at the meetings. So, thank you very much for your hard work.

**DEPUTY DIRECTOR HASEGAWA:** Item 9d is the Approval for our contract award for Quantitative Market Research Services. So, the simulation of research that I have done, that this contract deals with, let me explain a little bit about what it does do. They are consumer market research studies, not just to test a new concept or idea in terms of, like, a purchase intent, but respondents actually go through multiple simulations of actual purchases. And recently we did do something similar with our \$30 Crossword game that we've talked about in the past that we launched. And so, what happens is, a typical consumer will see multiple different scenarios of a mix of Scratcher games to purchase, and their "marked purchases" are recorded each time. And during the different sessions, we have some that kind of resemble the more current situation of games and then some that have the test concept, in this case the \$30 Crossword game involved. And through this mechanism, we're able to then estimate and project some sales, importantly, not just the sales of the new concept, but how it might cannibalize sales from existing audits, so that we end up with a net gain, the incremental sales. We also then include prize payouts involved, so that way, we're able to

estimate, very importantly, does this new idea, this new price point, actually end up generating more money for education? So, we're able to overlay that through these market simulation studies. So that's what they're about. I wanted to give that as a preface before going through the procurement of it.

So typically, in the past, as I said, we've done these projects before, we had procured them one at a time. So, when the need arose, then we went out and procured a vendor for that service. As you might imagine, as we get and try and build sales, more and more ideas, more concepts need to be tested so that they are happening more frequently. And also, by doing them one at a time, it ends up, you know, having a little bit of a burden on staff resources, both in the Procurement Services Section of Operations, as well as my own group. So instead of doing them one at a time, I decided to take it to a formal RFP and do a three-year contract with one vendor. So, the RFP was issued back on March 20<sup>th</sup>, and the Lottery received seven proposals by the deadline in April. Through the evaluation process, the company known as KS&R, which stands for Knowledge Systems and Research, Incorporated, they received the highest evaluation score, and on top of that, they provided us with the lowest cost, so we get the best of both worlds. So, the contract with KSR: what they were able to

do is they allow us to have a large mix of games. They also were able to calibrate actual sales, actual Scratchers sales into their modeling, so that it really provides a much more accurate and beneficial sales projection and profit projection. The award is for a contract of three years. The term will be from August 2023 through July of 2026, and the contract expenditure authority is not to exceed \$300,000. As an aside, we have worked with this firm on similar studies, and their cost is right in line as before at \$50,000. And by having a three-year contract, this enables us to lock in that rate for a three-year period as opposed to if we did individual awards over the course of the year. And that's the highlights on this agenda item, and I can answer any questions at this time.

**CHAIR AHERN:** All right, thank you Jim. Do any Commissioners have any questions or comments regarding Action Item 9d? Hearing none, does any member of the public want to address the Commission at this time regarding Action Item 9d? Thank you. Do I hear a motion to approve Action Item 9d, Quantitative Market Simulation Research Services Contract?

**COMMISSIONER MILLS:** I'll move to approve.

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

**COMMISSIONER GARRISON-ENGBRECHT:** I'll second.

**CHAIR AHERN:** We have a motion and a second.  
Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Commissioner Alvidrez?

**COMMISSIONER ALVIDREZ:** Yes.

**MS. TOPETE:** Commissioner Garrison-Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes.

**DEPUTY DIRECTOR HASEGAWA:** Thank you.

**CHAIR AHERN:** All right. We'll move on to 9e, Problem Gambling Prevention Contract, and Paula? Good morning, Paula.

**DEPUTY DIRECTOR NEGRETE:** Good morning, Mr. Chair and Commissioners. Item 9e is a request to enter into a three-year Interagency Agreement with the California Department of Public Health for Problem Gambling Prevention Services provided by the Office of Problem Gambling in the amount of \$510,000. The Lottery currently holds a two-year interagency agreement with CDPH in the amount of \$278,160. That is set to expire on June 30th.

The Office of Problem Gambling is charged with developing and providing quality statewide prevention and treatment services to address gambling disorders in the

State. And its Prevention Program includes the administration of the State's toll-free California Problem Gambling and Helpline, where Helpline callers receive counseling from a licensed therapist who specializes in gambling disorders, with the goal to engage and transition the caller in its outpatient treatment services.

The proposed Interagency Agreement will provide support for maintenance of the State Problem Gambling Helpline. The Lottery will receive a reports on Helpline data, which is helpful to improving our responsible gaming program. OPG can also help in developing appropriate literature and brochures for the distribution to Helpline clients and Lottery retailers, and they can assist in drafting content to raise public awareness on problem gambling for Lottery communications.

The Interagency Agreement also provides the Lottery with membership to the Office of the Problem Gambling Advisory Group. The Advisory Group is comprised of State regulating agencies, gambling industry representatives, educators, researchers, and advocates who discuss priorities and strategies for educating and training individuals engaged in problem gambling-related issues. Through the partnership with OPG, Office of Problem Gambling, Lottery staff is able to learn more about gambling disorders, including best practices for prevention, partner

healthcare experts and advocates, collaborate, and amplify messaging in support of National Problem Gambling Awareness Month and the Live Responsibly campaign that the Lottery does and provide guidance as the Lottery makes improvements to its Responsible Gaming program. The Lottery's Responsible Gaming Program has received the highest certification; it's a Global Certification from the World Lottery Association.

Changes in the current agreement include moving from a two-year agreement to a three-year agreement. This is something that the Office of Problem Gambling requested for administrative purposes. The proposal would provide \$170,000 in funding to the Office of Problem Gambling per year to account for inflation and support 50 percent of the annual cost of the Helpline, resulting in an annual increase of \$30,920. To date, the Lottery has not increased funding to account for inflation and raising costs to maintain the Helpline.

The Lottery recommends the California State Lottery Commission approve a three-year Interagency Agreement with the California Department of Public Health for Problem Gambling Prevention Services provided by the Office of Problem Gambling in the amount of \$510,000 for a three-year contract.

**CHAIR AHERN:** All right. Thank you, Paula. Do



any Commissioners have any questions regarding Action Item 9e?

**COMMISSIONER MILLS:** I do have a question.

**CHAIR AHERN:** Please?

**COMMISSIONER MILLS:** Thanks, Paula, for that briefing. Can you talk a little bit about how the price is negotiated with the Office of Problem Gambling and how we gain confidence that we're getting the best price for the service, this important service?

**DEPUTY DIRECTOR NEGRETE:** Sure. We have a great relationship with the Office of Problem Gambling. It's an open dialogue, and the Lottery looked at the inflation rate, and the cost of the annual Helpline, and we also followed State policy and law in regards to the services rendered, so they are consistent and attributable directly to services rendered.

**COMMISSIONER MILLS:** Thank you.

**DEPUTY DIRECTOR NEGRETE:** Any other questions?

**CHAIR AHERN:** All right. Does any member of the public want to address the Commission at this time regarding Action Item 9e? Seeing none, do I hear a motion to approve Action Item 9e, Problem Gambling Prevention Contract?

**COMMISSIONER GARRISON-ENGBRECHT:** Motion to approve.

**COMMISSIONER ALVIDREZ:** Second.

**CHAIR AHERN:** We have a motion and a second.  
Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Commissioner Alvidrez?

**COMMISSIONER ALVIDREZ:** Yes.

**MS. TOPETE:** Commissioner Garrison-Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. Paula, thank you very much.  
I'd like to call on Sharon Allen for Action Item 9f, Hot Spot Prize Payout and Regulation Changes.

**DEPUTY DIRECTOR ALLEN:** All right. Good morning.

**CHAIR AHERN:** Good morning.

**DEPUTY DIRECTOR ALLEN:** This is 9f, Hot Spot Prize Payout Changes and Regulation Changes. Hot Spot is a monitored game that offers players the option to purchase a Hot Spot base game and an optional Bulls-eye add on feature for an additional wager. To improve sales of the game and manage game expense, the Lottery is proposing changes to the Hot Spot prize structure. As you will hear later from Jim, growing sales of Hot Spot remains a key area of focus for the Lottery within its Strategic Plan and represents an opportunity to provide more supplementary dollars to education.

The last major game change for Hot Spot was in 2012 when the payout was increased to reflect industry best practices and attract more casual players to the game. This helped begin a pattern of sales growth for Hot Spot; however, it also altered the emphasis on the Bulls-eye add-on feature, making its prize payout lower than the base game.

Over the years, player behavior has shifted to reflect this payout change, as players do not see the benefit of adding an additional wager to play the Bulls-eye feature and shifted their play to other areas of the game. Additionally, California is unusual in its prize payout disparity in this style of game compared to other jurisdictions with games that offer a similar quick play style. The variance creates risk in the game's funding model, and it has required supplementation to support the game expense, particularly as sales grow in the game. To address these challenges, a modification is proposed to adjust the Hot Spot base game payout from 64.4 percent to 63 percent with slight changes in specific Spot prize divisions, while increasing Bulls-eye payouts from 59 percent to 65 percent.

These modifications are designed to offer players bigger prizes when they add the Bulls-eye feature and create more parity within each game feature and its overall prize

structure. If the Commission does not adopt these amended game regulations, the Lottery could lose the opportunity to increase Hot Spot sales, as well as potentially increasing liability for the game expense due to the playership to higher prize payout divisions. The proposed regulations have been amended to address this modification, and it will become effective in November of this year. Lottery staff recommends approval of the proposed regulations to enhance the Hot Spot name. I'd be happy to answer any questions.

**CHAIR AHERN:** All right. Do any Commissioners have any questions regarding Action Item 9g?

**COMMISSIONER MILLS:** I do.

**CHAIR AHERN:** Okay.

**COMMISSIONER MILLS:** Thank you for the presentation. So, it seems like the last time a change was made to this game was like over a decade ago and I wonder if you could talk a little bit about, like, what triggers a review of a game, and should we be reviewing these games more often? I just would like to understand that a little bit better now that I'm in the spotlight. And then also, I would just like to understand a little bit more about kind of who's involved in this assessment. This is a California-based game?

**DEPUTY DIRECTOR ALLEN:** California only game, yeah.

**COMMISSIONER MILLS:** Okay. And then who's involved in that assessment? Like, how long is that process, like how are we confident that we're getting to the best answer and the solution that's coming forward?

**DEPUTY DIRECTOR ALLEN:** Got it. Well, we're constantly looking at game performance. The Product Development Team within Sales and Marketing has a responsibility of managing the product and looking on an ongoing basis: How is it doing? Where are trends in the sales data? So, it's a constant review of the game performance.

In addition, we look at trends across industries -- what are the best practices and seeing how there might be trends emerging. Like, in this case over time, this behavior shifted away from the Bulls-eye. And then additionally, we work with our Business Planning and Research Team and also Finance to look at the data and also what kind of opportunities there are to improve the game, to change the game, what's going on in other jurisdictions? It could involve research on different types of features.

And then finally, we also have to be -- because this is a gaming system change, we also have to look at our overall priorities and timing as to when we can make the change because we have to make sure there's an appropriate amount of time to update the games and still update all the

related materials and systems and do the proper testing, so by the time that it goes live, everything has been tested and ready to go in addition to communicating the game-change information about our -- to our retailers and ultimately to our players.

So, we look at that holistically against all of our other Lottery priorities. And as we were also dealing with the Pandemic on this one, we were working towards making some modifications, and then with the Pandemic and other things, it did fall a little bit lower on our list as we were dealing with those immediate issues.

**COMMISSIONER MILLS:** Understandable. Thank you, very helpful.

**CHAIR AHERN:** All right, do any other Commissioners have questions regarding Action Item 9f, for clarification, 9f?

I just would like to comment that it's nice that we're paying attention to our casual players as well, and we have increased those numbers to get more people involved in the California State Lottery.

**DEPUTY DIRECTOR ALLEN:** Absolutely, yes. And this change is just part of the ongoing focus that we've had on Hot Spot to grow interest, and we've seen that in sales and this will just continue that path.

**CHAIR AHERN:** All right. Thank you very much.

Do any members of the public want to address the Commission at this time regarding Action Item 9f? All right. Do I hear a motion to approve Action Item 9f, Hot Spot Prize Payout and Regulation Changes?

**COMMISSIONER GARRISON-ENGBRECHT:** 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 Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Commissioner Alvidrez?

**COMMISSIONER ALVIDREZ:** Yes.

**MS. TOPETE:** Commissioner Garrison-Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right. Don't go anyplace, Sharon. We're moving on to Item 9g now --

**DEPUTY DIRECTOR ALLEN:** All right, thank you for that.

**CHAIR AHERN:** -- and that's the Asian Consumer Market Advertising Agency Contract.

**DEPUTY DIRECTOR ALLEN:** Right. This item is

requesting approval to enter a new contract with Intertrend Communications for Asian Consumer Marketing and Advertising Services. As the fastest growing ethnic segment within the State, the Asian consumer market, or ACM, is an important segment to the Lottery. The Lottery currently markets its products within the market and relies on the growth within this market and relies on a variety of Asian media and content platforms to reach its consumers.

With the Lottery's current contract about to expire -- these services expire in August, the Lottery released an RFP last November to solicit bids for a new contract. In addition to being posted on the Lottery's website and the State's Contracts Register, a notification of the RFP was sent to the Lottery's vendor database and to a nationwide list of the top advertising and marketing agencies in this segment in order to increase the number of potential proposers. It was also advertised on industry-specific websites and in trade publications.

The competitive RFP process consisted of three phases, each with a diverse evaluation team comprised of subject-matter experts across the Sales and Marketing Division, as well as representatives from Procurement Services and Support. The first phase focused on agency capabilities and current samples of work. It was open to all agencies and joint ventures that met the specified



minimum of qualifications such as: required years experience in the ACM segment and minimum abilities. Agencies were required to submit background information and case studies that showcased their expertise and demonstrate how their strategic and creative skills would meet the Lottery's needs. Six agencies submitted proposals. All were evaluated and advanced to Phase II.

The second phase consisted of agency site visits that served as a further verification of services, professional chemistry, and a culture check. These onsite meetings gave the Evaluation Teams a sense of each agency above and beyond their written work, a description of the credentials that were evaluated in Phase I. Additionally, the Evaluation Team met with agency staff to assess their experience, knowledge, and qualifications, as well as the breadth and depth of their resources. Three agencies advanced to the third phase.

This final phase focused on the Lottery's specific work assignment to assess each finalist's skills and capabilities in research and analytics, strategy, creative development, and immediate planning and buying. It also included an evaluation of their staff plan and compensation proposals, which were evaluated on both a stand-alone and a comparative basis.

The Evaluation Team then performed a Best Value

Analysis to determine which agency proposal would provide the Lottery with the maximum benefits in the areas of competence, experience, qualifications, performance, resources, services and tools and price. As a result of this Best-Value Analysis, the Evaluation Team determined that Intertrend Communications would provide the best value in all the desired areas.

Founded in 1991 and headquartered in Long Beach, Intertrend is a full-service, multi-control advertising and marketing communications agency focused on the Asian-American consumer segment. Intertrend demonstrated the ability to provide impactful marketing solutions which allow the Lottery to achieve its goal of motivating the Asian consumer in an innovative and effective way, elevating the Lottery brand, driving sales, and positioning the Lottery for the future.

The quality of Intertrend's strategic planning, integrating marketing and planning skills and creativity are exemplified by its strong rating in the three phases of the RFP. Additionally, Intertrend's staff plan include strong levels of staffing in all of the necessary areas to carry out the scope of the work and key marketing initiatives.

The maximum cost, authorized contract expenditure of \$32 million was developed based on the analysis of historical expenditures, anticipated future initiatives, and

a moderate inflation rate during the initial term of the contract.

Staff recommends the Commission approve the award of the Asian Consumer Marketing Agency Contract to Intertrend Communications for an initial term of four years, with the option to extend for up to three additional one-year terms and the maximum expenditure amount of \$32 million.

Finally, I would like to sincerely thank the many Lottery staff members who worked on this project, which spanned more than a year. Specifically, I would like to extend a special thank you to Consumer Marketing Chief John Koyama and their Chairperson Melissa Wells for their dedication and hard work throughout the entire project. And then with that, I'll be happy to answer any questions.

**CHAIR AHERN:** Well, thank you for recognizing your staff, very important to do.

**DEPUTY DIRECTOR ALLEN:** Well, it's a big project and the teams across sales and marketing as well as the other divisions to support it has been really appreciated.

**CHAIR AHERN:** Okay. Do any of our Commissioners have any questions regarding Action Item 9g?

**COMMISSIONER ALVIDREZ:** Thank you very much for your presentation. Good morning. A quick question about other marketing advertising contracts. I know that the

Lottery engages in those contracts regularly as we try to explore various games that are kind of ethically focused? How does this \$32 million compare with other kind of, you know, targeted advertising contracts that we've used in the past? This feels a bit more expanded.

**DEPUTY DIRECTOR ALLEN:** This one is. The last contract was entered several years ago, I think, so the rates have changed. We also changed the staffing model or the compensation model to be all-inclusive labor-based instead of commission-based. So, in our previous contract, the model had involved commissions based on media or other types of expenses, and so this model, which is now used across all of our contracts, is more specific. It's all the same, labor-based, and that way, compensation doesn't change based on what our expenditures are, and the agencies can then staff the accounts based on that revenue expectation.

We can always change the staff plan if our needs change, and so this expenditure amount is kind of in line with our other contracts for the size of this segment. Our lead agency, David & Goliath handles the bulk of the buying through a core price and media, and that's the largest expense is the media purchasing. And so, all of our agencies work together as one kind of roster and one kind of team, and whichever agency can provide the best service -- either they have the expertise or the best value, we go to

that agency.

**COMMISSIONER ALVIDREZ:** Thank you.

**CHAIR AHERN:** Any other questions?

**COMMISSIONER MILLS:** I do have a question. Hi, Sharon, thanks. You just lit up when you stopped reading and just talking about this, so thank you for that. You exceeded --

**DEPUTY DIRECTOR ALLEN:** Had to make sure I get everything right for the record.

**COMMISSIONER MILLS:** I also wanted to express my appreciation to the staff. I know those RFPs are -- they're never easy. So this is going to be a new vendor --

**DEPUTY DIRECTOR ALLEN:** Yes.

**COMMISSIONER MILLS:** -- that will be coming in. Okay. And can you talk a little bit about the transition process, and do you anticipate any additional costs or hiccups or disruptions as a result of this transition?

**DEPUTY DIRECTOR ALLEN:** We have a -- since the contract is expiring in August with our current vendor, we have a little bit of an overlap. As soon as this contract gets approved, which will hopefully be very soon after the Commission approves it, if they approve it, and we work to make sure that all of the in-flight stuff that's in progress, gets effectively transitioned over. Since our current provider did not make it to the finalist round, we

were able to start that process sooner in making sure that we're transferring knowledge any kind of records. We have gone through this previously, so we do have a checklist.

Also, we're members of the Association of National Advertisers, and they also provide best practices for agency transition. And we'll set up a series of briefings once it's officially contracted with our new agency, to make sure that they understand the Lottery business, also, all of the guidelines and restrictions, responsible gaming. We've done a lot of that through the extensive process where we have a dedicated briefing day where they learned a bit about the Lottery, but, right, it's a deep dive, and the agency principals are actually here with us today as well.

**COMMISSIONER MILLS:** Thank you.

**CHAIR AHERN:** Any other questions?

**COMMISSIONER GARRISON-ENGBRECHT:** I just want to say thank you for that thorough process in the RFP and you and your team had the multiphase process in selecting an appropriate vendor for the scale in this market, and I appreciate the interest in diversifying our consumer market within the State of California.

**DEPUTY DIRECTOR ALLEN:** Great. Thank you.

**CHAIR AHERN:** All right. Thank you, Sharon. Does any member of the public want to address the Commission at this time regarding Action Item 9g? Seeing none, do I

hear a motion to approve Action Item 9g, Asian Consumer Market Advertising Agency Contract?

**COMMISSIONER GARRISON-ENGBRECHT:** Motion to approve.

**CHAIR AHERN:** We have a motion to approve. 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 Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Commissioner Alvidrez?

**COMMISSIONER ALVIDREZ:** Yes.

**MS. TOPETE:** Commissioner Garrison-Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right. Thank you very much, Sharon.

**DEPUTY DIRECTOR ALLEN:** Thank you.

**CHAIR AHERN:** All right. Continuing on with our audible. We'll now move to Action Item 9a, which is our Strategic Direction, and Jim is back up.

**DEPUTY DIRECTOR HASEGAWA:** Yes, I'm back up.

**CHAIR AHERN:** (Inaudible), you're not a back up, Jim, you know I would back you up.

**DEPUTY DIRECTOR HASEGAWA:** They're going to read a lot again. It's gone to sleep, the computer, and I don't have a password. We're very secure. Oh, we have to go get it. We're really secure.

**FEMALE:** Sorry, Jim, I (inaudible).

**CHAIR AHERN:** Well, I appreciate that. As you know from the number of briefings you get, I continue to ask about technology security and backups and the cloud, so thank you. I asked our IT people this morning about their issues as well. Don't look.

**DEPUTY DIRECTOR HASEGAWA:** Great. I won't look.

**CHAIR AHERN:** Jim, you're far from a common user by the way. Look at that password.

**DEPUTY DIRECTOR HASEGAWA:** Yes, we have long passwords now. That's part of our requirements.

**CHAIR AHERN:** Okay.

**DEPUTY DIRECTOR HASEGAWA:** They're not words anymore; they're pass-phrases.

**CHAIR AHERN:** 9a, Strategic Direction.

**DEPUTY DIRECTOR HASEGAWA:** All right. Thank you very much, Mr. Chair and Commissioners, Director Johnson. It's my honor to present the Strategic Direction of the California Lottery, although I'm the one up here, this is the work of tons of people across all the divisions of the



Lottery, so, you know, I wanted to acknowledge that.

So, I wanted to start by giving a little background. So, the Strategic Plan, or the Strategic Directions, provides the broad map, the general direction that can drive our business towards increasing the contributions to education. This is based on reviewing our business, such as sales trends, playership changes, general business and general retailing trends that are going on. And at the May meeting, I shared some of the highlights of that review.

Now in contrast, the Annual Business Plan, which will be Item 9b, that provides more details on the specific projects or the tactical steps that will be undertaken in the upcoming year. So, it kind of gives a little more details, but this Strategic Direction will be at a little higher level. And just again, for background, in May of 2020, the Commission approved the last set of Strategic Objectives.

So, the financial objective in the prior Strategic Directions that were approved by the Commission in 2020, as I said, that was to surpass the \$2 billion threshold in contributions to California public schools for the first time in our history. And as you've heard already, both of the past two fiscal years have achieved that mark. So, we were successful in achieving that financial objective.

Now, attaining \$2 billion in contributions to education over the last two years, that was the result of some fortunate circumstances. You know, in fact, the budget for each of those fiscal years did not show contributions going over \$2 billion. One of the factors in this in current fiscal year is the fact that we've had many large jackpots, seven draws where the jackpot was over a billion dollars. So, in the new Strategic Plan, our financial objective is to exceed \$2 billion without the need for any extraordinary circumstances to occur. And that would require about \$200 million more in increased contributions to education based on the current year and next year's budget.

So here are the four business objectives that I'll be discussing today. You may recall, I ended last month's presentation with these four goals, and I'll be going through them individually, so I'm not going to read them at this time. So, the approach to this presentation really is, so we'll be looking at a recap of the results from the prior objectives, just like I did for the financial objective. Then we'll discuss how the strategic objectives have helped shape the proposal in this Strategic Direction. What's remained the same? What is totally new, and what's been modified as we evolve our objectives strategically? And then I'll also provide some examples of the types of

initiatives that'll be under each objective, just to give you some ideas, some flavor of what direction it really means by having that objective.

All right, let's start with the first one. So back in May of 2020 when the Commission was considering the last strategic set of objectives, the COVID-19 pandemic was only a few months old, and you might recall back then that during those early days of the pandemic, Lottery sales fell as, you know, fewer shopping trips by consumers because of the pandemic many businesses being closed, or people paying attention to the stay-at-home orders.

So, we needed to increase sales, and lo and behold we have because in the fiscal year of 2019-20, total sales were almost \$6.6 billion. Three years later, you can see how our current fiscal year is estimated to end with total sales at over \$9.2 billion. And our contributions to education over this time period has gone a little over \$1.5 billion to an estimate for the current year that is about \$2.18 billion. So, with the pandemic now behind us, sales fully recovered, this objective, really isn't needed and it doesn't carry forward into the coming Strategic Directions.

The next one I'm going to talk about is growing Draw Game sales, particularly for Jackpot Games and Hot Spot. So, over the past three years, Hot Spot, as indicated on the left there, Hot Spot sales have increased by about

\$100 million, representing a 32 percent gain. This was achieved primarily through our Sales staff placing more monitors in locations, as well as working with retailers to promote the game. During this time, Hot Spot saw significant gains, even though many of the best Hot Spot sellers in the social trade channels were closed or, you know, had limited hours or limited customers. Because places like restaurants and the mall really didn't have much business during the early days of the pandemic.

Instead, Hot Spot sales games were in more traditional Lottery retailers like gas stations, convenient stores and smaller grocery stores. And it's through the feature called Hot Spot To Go, because now our mobile app, as well as on our website, players can then look to see in a format that looks like the Hot Spot monitors what the winning numbers are. And so, with retailers learning that and promoting it with their players that feature, we increase sales in those venues.

On the right, we talk about Jackpot Games, and that includes for the Powerball game it added a third draw on Monday, and that started in August of 2021. That resulted in weekly sales going up by about 10 percent.

**CHAIR AHERN:** Jim, can I interrupt you just for a minute?

**DEPUTY DIRECTOR HASEGAWA:** Sure.

**CHAIR AHERN:** Okay. With the Powerball adding the third draw, did we create that, or did we see it being effective in other states?

**DEPUTY DIRECTOR HASEGAWA:** Well, what happened there is we're not a member of what's called the MUSL, the group that runs the Powerball game. We drew up what's called a Cross Seller's agreement to sell it. So, it's actually the Powerball Consortium, the MUSL's Organization that kind of decided to run it and that -- and Powerball is sold now on that Monday, nationally, so everybody who sold the game had to kind of adapt to those changes. So really it didn't initiate from California staff at all.

**CHAIR AHERN:** Okay.

**DEPUTY DIRECTOR HASEGAWA:** Now, turning from Powerball to Mega Millions, which we are part of that consortium. So, we are involved in that effort although not just California, we're part of the ten states that are a part of that. But the consortium has been looking at possible game changes for the Mega Millions game, and research has been conducted in that game, and so the consortium's kind of deliberating and deciding on next steps in that regard.

And internally, here in California, we looked at our SuperLotto Plus game, including brainstorming sessions and also kind of assessing some of those ideas as to what

potential benefits in terms of sales and profits, they might generate. So that's where we last stood, and now we're ready to move forward with this, all of those efforts. And so, this objective really moves directly into the next strategic plan, as we feel that there was work; there's still a lot of work, and we still have a lot of opportunities that can be provided.

Draw Games have a higher profit margins due to their lower prize payouts than Scratchers. So, a higher share of sales goes to education. That's another key reason why this becomes an important part of our strategic efforts. There's still some strong potential because over the past ten years, Scratchers sales have increased by a greater percentage than our Draw games, and that even includes with this year's tremendous jackpots. We also showed last month how many other U.S. jurisdictions have a greater share of their sales coming from Draw Games than what we see here in California.

And then finally, the other factor that shows strong potential is the fact that the amount each player spends is very modest, and particularly in comparison to, say, Scratchers. So even our most frequent segment of Jackpot game players, they spend on average just \$18 a month, and that's across all three games combined. So, as you can see, there is room for growth, and if you didn't

know, there are about 17 million California adults participating in our Jackpot games, so just, again, we, you know, the opportunity to increase sales with 17 million potential additional customers spending a little bit more.

This is objective in the upcoming three to five years, will kind of a focus on three areas. Product, marketing and advertising, and retail efforts. In the product area, as I mentioned before, there's been a lot of product research and a lot of analysis, a lot of idea-generation going on for both the Mega Millions Consortium as well as for our own SuperLotto Plus Game. So now, with all of that kind of research and analysis done, now is the time to actually create the plan of how we're going to move forward, and that's what's going to be happening, as you'll see. Both developing that plan and then implementing it over this time period. There are opportunities to explore different ways of marketing and advertising our games, particularly our Jackpot games, beyond generating just awareness of the Jackpot amounts as our efforts do. And I do want to discuss some detail, a little bit more about the Retail Initiatives because there's one in particular that highlights the retail areas that, you know, can grow our Jackpot game sales.

Next, selling draw game tickets In-Lane at retail. So right now, this has been a large effort for the whole

North American Lottery industry that have worked very collaboratively, not only with the states, but also all the gaming vendors to come up with solutions, because there are many locations that have a multi-lane environment that don't sell Lottery, or they don't sell tickets in the lanes. They sell it maybe at the customer service counter or in our case at a self-service machine.

So, through the In-Lane Initiatives, there's two possible ways it will come to fruition. One is called the Quick Ticket, and that uses the gift card network that all retail owners, you know, are connected to because so many people buy gift cards. And so, it really uses that same system to generate the sale, and then have it communicated to our gaming systems. So as you can see a picture there, you know, cards would have pre-printed Quick-Pick numbers, and players actually scratch off to reveal their numbers, and that will tag a ticket-looking thing, the clerk will just scan it, and it's like a gift card would be scanned, and then it's activated, and you're eligible to be won and it communicates to our gaming system. So that's the Quick Ticket.

Another way to apply the In-Lane solution in retail is called a receipt ticket, and there, a player would select their game and wager by taking a card. It won't maybe exactly look like the ones in this picture because



it's not going to have pre-printed numbers that you scratch off. This is going to be kind of like, I like to call it, like, you know when you go to Costco, and you buy gift cards, and that card really isn't anything, but it triggers a purchase at retail. So, it will have a card at -- selecting the game and wager, the clerk then scans the card just like they do with other items their store, and the Lottery ticket is issued through the retailer's point-of-sale system and printed out on regular paper. So and actually, I think there will be a picture later on in the presentation that actually shows one of those tickets, since Texas has been implementing them.

So those are the two things, and it will provide a method of opportunity. Because right now in California, when somebody is like, let's say in a supermarket that does sell Lottery, but not in the lanes, it does begin a two-step process. And as one of the other things that we saw in our Shopper Insight Study is that sometimes people don't buy in a supermarket because they're in a rush; they want to get out, and they kind of forget about it because it's not right there at the lane when they're checking out. So, this would solve that problem.

**CHAIR AHERN:** I really like that In-Lane idea, getting cards. Good thinking.

**DEPUTY DIRECTOR HASEGAWA:** Switching right into

retail because I just talked a little bit about that, we had an objective previously that was called Revisiting Retail Strategies Adapting to New Consumer Preferences. And how we've accomplished that objective over the past three years is after a lot of extensive pre-planning and discussions with Walmart, we installed equipment in Walmart Supercenters, and that began in the Fall of 2022; that I discussed at the last meeting. That represented a total of 183 stores, and it's a totally new trade channel that was added to our network.

In addition, other retail endeavors that happened over the past three years. Some of our existing Lottery retailers received new self-service machines. They're shown there on the right. And, as well as, in some cases some new jackpots signs that I also highlighted last month.

And finally, I wanted to mention that, you know, we shared last month the Shopper Insight research that kind of helped us understand that retail environment from the consumer standpoint. When somebody's shopping in that store and thinking of potentially making a lottery purchase. We did some of that research.

So, the Strategic Objective for the Retail Plan this year in this area is being slightly updated, so the terminology, the wording, is going to be a little bit different, and it's based on what has already occurred over

the past three years, as well as from that research from our Shopper studies.

Now, I did talk about the In-Lane solution in the context of the Draw Games. The In-Lane solution just as discussed, really offers great promise to help us achieve this retail objective. Since it doesn't require, like, a separate Lottery terminal, as it's integrated into the stores existing point-of-sales system, it could help convince a retailer to become part of the Lottery network. It might overcome one of those barriers, so it actually could help us pursue opportunities in new trade channels.

Additionally, the thinking is that to attract these new retailers, the Lottery industry itself needs to kind of make changes. An example of that is here at the California Lottery, in the early 2000s, a new business model that employed or are now called broad sales representatives, was developed, piloted, and then fully implemented. So, what it did do is it relieved the retailer partner of the burden of having to remember to stock the machine and merchandise the machine and doing any of those types of things. They really didn't have to handle the tickets; our sales representative did that. And so, it solved one of the barriers back then in the early 2000s and that allowed us to gain entry into CVS as a retailer. And even though they earn not the six percent commission on each sale, this model

was much more attractive to them because they don't want to have to deal with stocking the tickets and counting of the tickets and, you know, dealing with them, all of that aspect to it. And so, new ways that we ultimately might have to attract retailers (inaudible).

Another example is Walmart. In the case of Walmart, this is again a national effort, since Walmarts are all across the nation. With Walmart, there was not equipment available in the Lottery industry that really fit their business needs. And so, the vendors actually created totally different self-service machines that would fit what Walmart needed in order to -- and that allowed Lottery's to then gain access to Walmart as a retailer. So that's what a lot of this Retail Initiative, it will happen over the next three years, because the Lottery's have to kind of develop new thinking and new ways to break down these barriers.

And finally in this area, the Shoppers' study that I talked about last month revealed the importance of how retail signage is. It really spurred both impulse or unplanned purchases, and it shows that while our Lottery retail outlets are critical obviously to sell the product, it's not just 23,000 points of purchase; it's 23,000 consumer touchpoints. And our research in that Shoppers' study showed how signage is really needed, like, places like supermarkets, or really large format stores, large

footprints because people kind of forget because there's so much else going on in those retail environments.

All right. So here are some examples of how the In-Lane Solution helps boost our retail presence of signage at large retailers, and these are actual pictures from some stores in Texas. On the left is H-E-B, which is a supermarket in Texas, and you can also see now what the receipt tickets would look like. And on the right is how it is deployed in a chain called Dollar General. And you can see that what happens here is that now right where people are, there'll be things like little Jackpot signs that promote the Lottery and the jackpots that are available. So, the In-Lane solution not only is great for being able to sell the ticket, but it also adds additional signage, so that even if somebody who ends up not buying a ticket at that particular store, but they've now got the impression of, oh, that's right, Lottery and the jackpot, what's it's amount.

So now we have another objective, which was inform public and the stakeholders about the Lottery. So, in this important area, the Public Affairs Communication Group as well as Sales and Marketing, they deployed various tactics over the past few years to disseminate information about the Lottery and its contributions to education. They included of course earned media through the press, also from Sales

and Marketing from our own digital media channels such as social media, email communications to our players, and the all-important website. Also, we had signage at retail, and this is a very interesting sign in the sense that it is customized. It shows what that store, that particular store, contributed to education based on that store's sales and so it made it very localized and customized so that people kind of understood the impact that their purchases might have. And on the website, a new interactive map was added so people could more easily look up contributions to the local school districts.

So, all these efforts combined may help to generate more positive overall feelings towards the organization, towards us, the Lottery, and you can see I've replicated the chart in the upper right there that I shared with you last month that showed how overall sentiment or overall perception of the Lottery has grown by 10 percentage points over the past several years.

So how this objective evolves is that it evolves in the sense of now we want to start with the word continue, because it's not like we haven't been working on this objective over the past several years. So, it does start with the word continue because we've had those strong programs recently to get information out to California.

In this final one, it mentioned that we added in

new metrics in our tracking study, and that's to measure the percentage of California adults that are truly aware of the Lottery's beneficiary. And you need to know this is done through a two-part question, so it isn't somebody that says, Are you aware that education -- we don't say, are you aware that education is a beneficiary of the Lottery? Then people go oh, yeah. It actually is a two-part question so that we know that a little over 30 percent of all Californian's know. They can correctly identify education. About twenty-nine percent think they know the beneficiary, but when prompted, they actually see that it's somebody else or some other entity or sometimes just the State in general. And 41 percent to the first part of the question don't claim any knowledge. They go, no, I don't know. We also found through this study that 18- to 34-year-old Hispanics, they have lower levels of beneficiary awareness, so that affords us opportunities to kind of pinpoint our message to make sure that more Californians really know who the beneficiary of Lottery funds are.

So, another objective was defusing barriers to play by changing perception. So, this objective is now more specifically defined in the upcoming Strategic Directions. It's now defined specifically for Scratchers, and it's defined for our casual or infrequent players of that game. Now, the reason for that is we really want to -- we take the

mission of growing sales but in a responsible manner very seriously.

And then looking at the sales data itself, most of our Scratchers sales gains over the past, you know, ten-plus years have come from our loyal, frequent players. We now estimate that core Scratcher players account for about 95 percent of Scratcher sales. And I do want to point out that, you know, over that period we really made a lot of product enhancements. You know, starting with AB142, which was more than ten years ago, we increased the price payout. And then we've been adding product change, product to the Scratcher category with higher price points: \$10 games, and \$20 games, and \$30 games. So, it's very common for any business, any company to -- when you have these types of product enhancements, that the first adopters are your more loyal for customers. So now is the time to really pay attention and to focus in on our casual players so that we can gain some additional dollars from them.

Now, if you didn't know, there are about seven million casual Scratchers players in California. And on average, we estimate their spending to be somewhere between \$40 and \$45 for an entire year. They don't play very often, probably for some of them maybe once or twice only in a year. And so that provides us great opportunity to increase sales by boosting their frequency of play.



And how we go about doing this is by understanding the reasons behind why they don't play more frequently and then tackling those barriers. And I shared with you last month a lot of the research we did do amongst these casual players and the barriers they have for playing more often. I'll be talking a little about that in the next.

Now, the objective that I just talked to you before that continues to improve the knowledge and perceptions of the Lottery, that helps diffuse one of the barriers to play in Scratchers more often. People feel much better when they really know that their purchase is going for a good cause.

Also last month, I talked about the Scratchers repositioning campaign that started in September of 2021 and how it changes the product being perceived with consumers so that it's now seen as, you know, moments of fun and entertainment and that it all brings. And I also shared the early positive impacts from that campaign as shown by the tracking study in terms of top-of-mind awareness and Scratcher playership. We've already made inroads on those objectives.

So, as we try to expand Scratchers sales by removing barriers to play among our infrequent players, it is to tackle those barriers, and so there's additional ones that need to be done. First and foremost is that it

requires a cash purchase, even though technically a retailer could allow a consumer to buy from them using say a debit card, they don't, because it does require a transaction fee and all, and that would eat into their 6 percent commission. And our own self-service devices right now, it isn't allowed to buy through any other means but cash.

So, we need to, you know, cash is needed to make that purchase, and as I shared last month, fewer and fewer consumers carry cash and use that as their preferred method of payment. What it does do is it ends up, you know, resulting in Scratchers being a lot of planned purchases because you've got to remember, oh I'm going to buy Scratchers, I've got to put cash -- get cash either from the ATM or you know make sure the cash is in my wallet when I go to that store. And so, you can't have an unplanned or an impulse buy.

Another barrier, and how we will be handling that barrier in the cash is looking at doing ways that our machinery, our self-service machines, can enable a cashless transaction using something like a debit card or perhaps a mobile payment like Apple Pay.

Another barrier is choosing the Scratchers game to buy. With the product enhancements, we've added the number of Scratchers games that a typical retailer carries so that now, when a casual player goes into a store, they're seeing

a wall full of games anywhere from 20 to maybe up to 40 or 50 games that a retailer may be carrying. And for a person who's not thinking about Scratchers or doesn't buy a product very often, that becomes kind of a daunting challenge, they have told us. And so, we've got to come up with methods to enable our casual players to more easily kind of select which game is for them.

In addition to the Scratchers category repositioning effort that I talked about earlier, that strategy, along with the new ones I just described, all of them have to be tackled together kind of simultaneously and in good coordination to really maximize effectiveness. Because even if we change people's perceptions about the product and they see the fun and entertainment it offers, it still wouldn't necessarily mean they will always purchase the product because they may not have cash on hand. So, all three of these elements are important to really gain success. That's what this next Strategic Directions will do is try to coordinate those aspects better.

So, through our prior strategic objectives or the annual business plan, there have been other objectives listed. They included items related to kind of transforming the Lottery, modernizing the Lottery, and what's happened over the past three years is that dozens and dozens of initiatives have been started. And are either completed or

they're still in the process of being implemented. And I'd like to say they kind of fall into three general areas, improving the Lottery's infrastructure, paying more attention to the Lottery's infrastructure and a huge effort has been made over the past three years to do that.

Second area kind of deals with enhancing or strengthening our internal processes and all. And again, the last three years we've seen tremendous effort in that area.

And the third is transforming the corporate culture. And again, multiple initiatives have been started and are in process, many of which have already been implemented.

Now these, while it is not listed as a specific objective on our Strategic Directions, these will continue to be part of a Lottery's annual business plan. And when I get to Agenda Item, excuse me, 9b, I'll be listing some of those types of projects that will be part of our annual business plan.

So, here's a recap of the Strategic Directions. There are four business objectives and that will allow us to reach our financial objective that I described earlier. Expanding Scratchers sales by removing the barriers to play amongst our infrequent players. Second, to grow draw game sales, particularly in jackpot games and hotspot. Next is

explore new ways to expand and utilize that -- leverage that strength that we have, which is our retail network. And then continue to improve knowledge and perceptions about the Lottery.

And the order there is not meant in any type of priority order. I mean, they're all four -- and all four are equally and extremely important.

And that concludes my presentation on the Strategic Directions. Staff recommends the adoption of these objectives so that we know this, the long-term goals and directions to reach them. And I can answer any questions at this time.

**CHAIR AHERN:** All right. Thanks for that presentation. Any commissioners have any questions or comments?

**COMMISSIONER MILLS:** I do.

**CHAIR AHERN:** Thank you, Jim, for that presentation. And I really appreciated how you told the story about where we've been and then how that translates into where we're going with the objectives that we are approved in 2020. How we have made progress against those objectives and how they flow through into how we're looking at the future. I have a few things.

How does Texas get ahead of California?  
California is like the innovation capital, right? So, how

do we make sure that we're weaving in innovation, you know, into the fabric of the Lottery as well? And how do we end up on the Texas slides when they're presenting their business plan about, look what California is doing?

So, I really, I think there is a lot of innovation in the plan, but I'm going to kind of segue into another comment, let you kind of respond to both.

But the previous objective around the emphasis on infrastructure, the emphasis on Mission, Vision, Values, it feels like, it feels a little dangerous to me to take that one out as a specific objective that we highlight because it's necessary to be able to do all of the things that you're talking about doing and when many times when you just try to depend on it weaving in, it gets lost. It's like the least sexy thing that anybody wants to, you know, work on, but it's necessary to, you know, to achieve your other objectives.

And as I was kind of listening to your presentation and thinking about the innovation that you're proposing and how do we get ahead of the innovation instead of following what other folks are doing, I'm wondering if there's an opportunity to iterate on that previous goal to kind of weave in this, not only making sure we are specifically focused on the infrastructure that we need and which will include policies and processes or whatever, but

that solid infrastructure, that everything that we're doing is grounded in our Mission, Vision and Values and that we're really focused on innovation because that's where the magic is going to happen. And that's how we're going to achieve the financial goals, right, of maintaining and continuing that upward. I just saw those bars of that upward trajectory of the contribution to education. The only way we're going to continue to achieve that is really through innovation.

So, I'll stop there and let you comment on that.

**DEPUTY DIRECTOR HASEGAWA:** Yeah, I'll take the first one. There is some connection between the two that you had and then I'll turn it over to Director Johnson.

But in terms of Texas getting ahead is up there. Probably a couple of factors involved. One is that Texas, as an organization and so forth, and their budget is run very differently. And so, they didn't have as many options open. They have a very restrictive, as I understand, a very restrictive like advertising and marketing budget so that they couldn't do certain things that we could do. So, they really had to turn to that.

Additionally, I will say that because of years of where maybe some of our projects on the infrastructure area weren't emphasized, that required a lot of stuff to happen in the past few years. And that allowed -- that tied up

things with our technological resources working on that. So, we wouldn't have been able to tackle the In-Lane earlier because it is going to be a significant lift from our IT folks to do the In-Lane project.

And so, that's how they kind of tie together. That, you know, maybe Texas did it -- was able to aggressively move into that area faster than us. The timing just wasn't right for us to take that into account because we're trying to, kind of, shore up a lot of those infrastructure projects that we discussed earlier.

**DIRECTOR JOHNSON:** Thanks, Jim. I'll just add that you, know, I think the overlay of the past three or four years has been to make sure that we can maintain our business during a crisis, support our mission goals of providing more funding to education, and also just, you know, make sure that we support our workforce and meet our public policy mandates.

I'd say in the last three or four years, that's been among the highest priorities. But I would add that we've been able to innovate in various ways, whether it's expanding into new retail channels like Hot Spot -- excuse me, like Walmart, for example, deploying new machines that offer better and more attractive ways for folks to purchase Lottery products and will allow us to grow the business there. And also doing some behind-the-scenes work to make



sure that, you know, as we look at the hotspot issue, for example, we know, okay, even though we constantly evaluate performance, there are some things we can do because we're seeing trends that are not optimal, you know.

And we've also, as Jim mentioned, we've had to do a lot of stuff behind the scenes to make sure that as a state department, we can achieve our goals of, you know, transparency and serving the public good in a responsible way.

I would say that, you know, our overall mission and vision and values continue to be important, continue to be a priority, and that's reflected in the fourth goal, as you can see here in the recap, improving knowledge and perceptions about the Lottery. We have kind of a dual goal there. One, making sure the public generally knows what we're about, but also making sure our employees understand what our mission is and how we can optimize our energies and efforts towards that mission.

And so, we know that in just the last several months, we've gotten approval to pursue a dedicated staff effort to expand on initial early efforts when it comes to articulating our mission and vision values and supporting our workforce in achieving that goal, and we're looking forward to unwrapping more of that as it develops.

So, innovation continues to be an objective for

us. You know, there are some hard constraints we have, like the way the Lottery Act is written, we can't use technology that other jurisdictions can take advantage of. We also see, for example, in other jurisdictions, they can offer games in ways that we cannot do in California, and that would require a change in the law.

But within the hard constraints that we have in law and public policy, while maintaining responsible growth, our team is working really, really hard to offer different products, newer products, to educate the public about how we do those products.

And, you know, some of these efforts, when it comes to innovation, date back several years, like the the group sales model, that was something that we did in California in response to the feedback we had from major chains about how to offer our products. We developed a way to offer what we do that worked with them and their businesses, you know, like CVS or other places, that hadn't been done before.

And so, you know, our folks are working hard behind the scenes and also out in the public space to make sure that we can do things in new and different ways and grow our business.

**COMMISSIONER MILLS:** Thank you. I appreciate those responses. I would just say, personally, I would

advocate to see that more prominently called out, to see our focus on our continued focus on infrastructure, our continued focus on Mission, Vision and Values, and our continued focus on innovation where it's possible to be more prominently called out in the objective.

So, I'll kind of leave it. I know I'm one voice of many on this panel, so I'll leave it at that.

**DEPUTY DIRECTOR HASEGAWA:** One point on that is that, as you may have seen in some of the data, and I know you'll definitely hear from Nick on this point is, to some extent, our sales have started to you know, curve up and starting to flatten a little bit more. And I think that's another reason why maybe a little more emphasis on the four objectives there is to make sure that, you know, over the next three years we don't kind of flatten or decline, is that we really do need to continue that growth curve. And so, I think that might be another reason why a little more emphasis on that. And as I said, the annual business plans do contain all of these projects, all these initiatives each year, and that's kind of, this is, again, the longer-term direction.

**COMMISSIONER MILLS:** Okay. My next question is around the cash barriers because it feels like we've heard about the cash barrier for a while. Can you just say a few words about like what are the barriers to solving the cash

barrier?

**DEPUTY DIRECTOR HASEGAWA:** Yeah. We'll be talking about the pilot program and so forth in the actual business plan for next year, but what will be involved is outfitting our self-service machines to, you know, accept cashless payments like a debit card. That's kind of what that initiative will involve.

There's a lot more than just that side of it too, because then we will have to have a, you know, a firm, to handle those transactions for us, you know, the debit card transaction, so that would have to probably be procured. And also, there's quite a bit of work that would have to be done as part of that whole initiative. It's not just the technological side, since to some extent those self-service machines already have a lot of that smarts inside the machine when we bought them years ago. It's just a matter of then turning them on and having, I believe, like readers, but more importantly to talk to the retailers, talk to the consumers about it. So that's the side that a lot of the cashless payment project will entail.

**COMMISSIONER MILLS:** Okay. Well, I'll be really interested in hearing like our progress against that, because I'm happy to see it here, and it seems like it's been a problem that's been recognized. You know, I remember hearing about it when I first came on the commission, and I

understand it's not -- you can't just flip the switch, but I think that it is an important one that we solve, and so, I'm happy to see it in the plan, and we'll be interested to hear our progress against removing that barrier. Thank you.

**CHAIR AHERN:** Any other questions? All right.

So, if I understand this correctly, the staff recommends that the commission approve the four objectives as the Lottery's Strategic Direction.

Does any member of the public want to address the commission at this time regarding Action Item 9a? Seeing none, do I hear a motion to approve Action Item 9a, the strategic direction?

**COMMISSIONER GARRISON-ENGBRECHT:** Motion to approve.

**CHAIR AHERN:** We have a motion. Is there a second?

**COMMISSIONER MILLS:** Second.

**CHAIR AHERN:** A motion and a second. Will the Secretary please call the roll?

**MS. TOPETE:** Yes. Commissioner Alvidrez

**COMMISSIONER ALVIDREZ:** Yes.

**MS. TOPETE:** Commissioner Garrison-Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Yes.

**MS. TOPETE:** Chairman, Ahern?

**CHAIR AHERN:** Yes. All right. Jim, take a

breath. Back on to Action Item 9b your --

**DEPUTY DIRECTOR HASEGAWA:** Correct.

**CHAIR AHERN:** -- Fiscal Year '23-'24 business plan.

**DEPUTY DIRECTOR HASEGAWA:** Yes. Since the preceding agenda item, in that agenda item, you know, I did discuss the objectives and strategies in the directions that the Lottery would be heading. The presentation of this Fiscal Year 23-24 business plan, it will describe some of the specific projects and tasks that will be undertaken in the upcoming year. So, I won't be providing a lot of background since you literally heard all the background just moments earlier in discussion of the Strategic Directions.

So, the outline for the presentation, as I said, under each objective, I'll describe the key programs that will fit under that objective, what needs to be -- what will be accomplished in the upcoming year. And then I'll describe some of the infrastructure-related projects that are part of the Fiscal Year 23-24 business plan.

So, in terms of the first objective, expanding Scratchers sales by removing barriers to play among infrequent players. So, we will -- this in the upcoming year, continue the efforts to reposition the Scratcher's product through both product issues and marketing and advertising issues. This will also include new executions

of the campaign that will be developed to continue to evolve that effort over time.

We will also now be talking a little bit about the cashless pilot. So, what will happen in the upcoming year is the very first step is to conduct analysis on a feasibility study to do a pilot project. And what that pilot project will do is we will enable, you know, a handful of self-service machines to be able to accept cashless payments like debit cards. So, the feasibility study will look at all the things that will have to be done to essentially turn on this cashless type program, but will only do it necessarily in a handful of stores. And the reason why we're not going full bore statewide, initially, why we need to do a pilot program, is a lot of financial implications.

So, yes, while we will be increasing sales, generating incremental sales by offering debit cards for the purchase at self-service machines, it's very conceivable that some of the existing patrons who might buy, say, \$20 worth of Scratchers tickets currently in cash, they may still just buy \$20 of Scratchers tickets on that visit, but now they use a debit card and we now have to pay those transaction fees. So, we really have to get a good handle on the incremental sales, the existing sales that just convert from cash to debit, so they can really model the

sales and profits from this endeavor, because ultimately, if we do this statewide, we want to make sure it pencils out so that it ends up increasing dollars to education, so that's why the pilot's really important.

The pilot also allows us the opportunity -- allows our sales force the opportunity to work with retailers to perhaps have some of these financial transaction costs may be borne partly by the retailer, because the retailer will, in theory, be increasing their sales of Scratchers tickets of which they get a commission off of. So, a pilot again will allow us to see what types of inroads we can make with retailers in terms of kind of having a cooperative program for this.

So that's what the first phase will be, like I said, to do the feasibility study early enough in this upcoming fiscal year so that it can become consideration for implementation in fiscal 2024-25.

And again, while we talk about it for Scratchers, this feature would really allow the purchase of either Scratchers or draw game tickets at the self-service machines to be using debit cards or possibly mobile payments.

And again, as I mentioned a bit earlier, you know, most of our self-service machines already have much of this internal capability because we did anticipate the potential need, so that was thought of when the last sets, not just



the most recent, but the last sets of self-service machine purchases were made.

In terms of another area that I want to talk about is the Scratcher product plan itself. So, the Scratcher product plan will have 53 new games being launched over the year, and that's part of the same numbers we're offering this current fiscal year. There'll be a slight change in the mix of price points, but just very, very modest. For example, the number of \$2 games will be increased in a couple, and that's in line with, again, trying to reach out to our more casual, infrequent players who may not want to buy a, you know, a \$10 game or also there's going to be more offerings of the \$2 product. We are offering an additional \$30 game launch, and that'll happen towards the end of the fiscal year.

But in terms of it, of course, it's not just the price points, but it's the mix of play styles, the mix of themes, many of which are designed to try and reach out to those infrequent casual players. And in working with the product group in marketing, I've gotten some of the, you know, early tickets that they wanted, that they thought we could share today to show you the efforts that they're doing.

So, here's some of the various games that are in the works to appeal to our more casual players, and I

believe actually the \$10 one \$1 million California Road Trip Riches is one of our most recent entries, and that game has actually launched already. But you can see that there is one already that they show that involves a licensed property, that's the tickets on the far left. They're dealing with the Universal Pictures old-time movies that many of us might remember from earlier years of the various monsters, whether it be Frankenstein or the Wolf Man or Dracula, and so those, they'll be showcased in a game that'll be launching this fall.

You can also see a game called Pet Payout to appeal to those pet lovers, and we also have the Year of Fortune games. 2024 will mark the Year of the Dragon, a very important one in the lunar calendar for not just Asian consumers, but I think the Year of the Dragon becomes kind of pretty universal.

**CHIEF AHERN:** Are there trademark issues with having games with such prominent names that are recognized like Year of the Dragon or Dracula or Frankenstein?

**DEPUTY DIRECTOR HASEGAWA:** Okay. Those tickets on the far left, those are a licensed property, and that's why I think in the issue memo I didn't say any names. I had to make sure that, you know, have all the licensing deals, all that's been worked out before I share something publicly, so I work with the product group. So, yes. The

ones that do involve licensing. Year of the Dragon does not, that's not a trademark item, so we are free to use that.

In terms, under the next objective, which is draw game sales between jackpot games and Hot Spot, you heard about the modifications to the Hot Spot price structure earlier from Sharon. It incentivizes play of the bullseye feature, and that allows us to come up with a projection of increasing sales by \$25 million in the upcoming fiscal year just from this change in Hot Spot price structure alone.

We'll be exploring product changes for some of our jackpot games. We talked about the research that the Mega Millions Consortium has been done and is now contemplating, so we do anticipate that potential change to that game will be in the works. So, it wouldn't be implemented to the consumer in the upcoming fiscal year because those types of changes take, you know a 12- to 18-month lead time, but we do anticipate staff time devoted to those types of product changes in the upcoming year.

And then in terms of our own SuperLotto Plus game, while the analysis and idea generating has happened, really now is to take all of these and to identify kind of the roadmap or plan for what are the SuperLotto Plus enhancements or enhancements that are anticipated over the next several years. And that will be left up to a cross

division team, you know, led by Sales and Marketing. We also have to consider the various technology because every change to the SuperLotto Plus game would require, you know, changes in our gaming system. So, we've got to take into account all the different projects that will be upcoming over the next several years, but at least identify that roadmap of product changes. That's what will be happening this upcoming year.

And then with the In-Lane solution that we've talked quite a bit about, starts the first phase, which is just phase one of a multi-year project to develop the In-Lane. And what will happen here in is that we have to take the application programming interface and integrate that protocol into our gaming system. You should know that this API is called, that was developed through all of NASPL. There was a committee composed of lots of lots of Lottery states, if not all the Lottery states, as well as all the different gaming vendors. So again, it allows, for example, if there is a supermarket that is nationwide and is doing the In-Lane project, they won't have to do everything separately whether they -- when they work with Texas versus California, versus -- I don't because then no national retailer would do it. So, it was getting all the states together to agree on this one application programming interface that allows that. And so, that'll be the first

phase of the project.

In terms of the retail area, phase one of the In-Lane project has a retail component too. And so, the first phase of that for the retail side is really to identify prospects, to discuss, negotiate, meet with those potential retail partners, and ultimately select the retail partner that we're going to launch In-Lane with. That's critical because we really can't move forward into phase two of the In-Lane project until that retailer partner is identified, because, again, as we've talked about, it integrates into their point-of-sale system. So, to write the scope that work out, to write the specifications, the technical team will have to know, like, what are the elements of that retailer's point of sale system.

In these negotiations and discussions, it'll also yield, which of those two solutions will we move forward with first. Is it the receipt ticket or is it the quick ticket that does utilize the gift card network? So, it's very different things. So, that's some of the discussions that will happen between our salespeople and these potential retail partners.

I've talked about, you know, trying to get into and recruit retailers in new trade channels, conduct new business, and how the Lottery industry needs to adapt to suit their needs. To do that, really, the first step for us

will be to identify the largest barriers here in California that businesses have from joining our network. Once we identify the biggest barriers to entry, then we can start coming up with potential solutions to overcome those barriers and present those to retailers. So, the very first step that we'll finish this year is really talking with potential retailers, understanding the reasons why they don't want to consider Lottery, so that we can identify those largest barriers and start thinking about the solutions.

All right. Have I covered everything? And then to continue to improve knowledge and perceptions about the Lottery. So, we'll continue the tactics I talked about earlier, earned media, digital media, player email communications, and information at our retail locations. But this upcoming year will see something new because we'll have some paid media vehicles used to convey our message. So, in addition to just having a press do it, we'll be getting across the story in our own way through paid media vehicles, and that'll be the addition for this upcoming fiscal year.

And finally, but by no means necessarily less important, is other business plan initiatives that are designed to really maintain or improve our operations. They're essential, as was discussed earlier. There are

about 25 different projects in this year's business plan that fall under this area. You know, some are involving bolstering the Lottery's infrastructure.

So, for example, the Northern California Distribution Center will be going through a remodeling effort. Some of that will allow the NDC, as we call it here at the Lottery, to be able to expand its capacity to distribute tickets. There'll be more of what I call pick and pack stations as part of the model. So, it'll strengthen and increase our capacity to send tickets to the retailers.

Another project is the asset management system so that we can more bring the management of our assets, including things like our vehicles. We have many up into the 21st century.

Another one involves our business intelligence system. Data and analysis is critical to run a business, and this will be migrating the BIVS (phonetic) system, the Business Intelligence System to a cloud solution to update it.

These are just some of the many. I have a whole binder full here that if there are questions, I brought the binder down.

**COMMISSIONER MILLS:** Thank you for calling these out, Jim. I appreciate you for that.

**DEPUTY DIRECTOR HASEGAWA:** Yeah, there's many of them. I kind of chose these because I'm a little more familiar with it. Could you imagine dealing with lots of different projects? You know, I have a little knowledge on lots of things, but not in-depth knowledge on all.

And then in other areas, of course, deal with transforming the corporate culture. So, we've already initiated the change management training in the organization. But for change management to be truly successful, it's not a one and done deal. It's got to be something that's repeated and reinforced. And so, additional change management training is in the works to start. And I know the senior team has some sessions planned, I believe, later in July.

And also, the Mission, Vision and Values program that was discussed a little earlier, that's part of the business plan, and it's got its timetable now that there's some dedicated staff to that.

So, with that, that kind of highlights the specific objectives, the specific, I guess, tasks under each objective that we plan to tackle. So, because even though we talked about the In-Lane solution, I wanted to be very clear that yes, it's not like, you know, in six months you're going to see this happening in a retail location. And then it's a multi-year effort and I described what will



happen next year as part of this multi-year effort. Similar with the cashless project, it's again, something that we'll be needing to do in steps. And I've described the steps that will be taking place in this upcoming fiscal year.

So, with that, that's the specifics of the business plan. And these items are included in the subsequent presentation that Nick will be giving when he talks about the budget.

**CHIEF AHERN:** All right. So, Lottery staff recommends that the California State Lottery Commission approve the proposed Fiscal Year 2023-24 business plan. Do any of our commissioners have any questions at this time?

**COMMISSIONER ALVIDREZ:** Quick question.

**DEPUTY DIRECTOR HASEGAWA:** Yes.

**COMMISSIONER ALVIDREZ:** Jim, thank you so much for the comprehensive presentation. I really appreciate it. I'm going to ask a variation of the question that I asked during the briefing.

And I think you mentioned just a moment ago about this process being a multi-year effort. So, my question goes back to kind of the expand Scratchers sales and removing barriers and the feasibility study. What is the total timeline dedicated for the feasibility study and the pilot program? When can the commission expect some recommendations?

**DEPUTY DIRECTOR HASEGAWA:** Yeah. The goal, and since I won't be the one sole person writing this feasibility study, but the goal really is to have it done within the first six to eight months of this upcoming year. The reason for that is some of it's the practicality of it is that's, you know, within that six- to eight-month period, that's when we begin plan, you know, detailed planning for Fiscal Year 2024-25. And for us to realistically be able to have that pilot in the subsequent fiscal year, the feasibility has to be kind of outlined pretty early in this fiscal year. So that's what's driving that timeline. So, I do at least hope that the feasibility study can be completed soon after the first of the year.

**COMMISSIONER ALVIDREZ:** So, the feasibility study is six to eight months. And then how much time are you dedicating for the pilot program?

**DEPUTY DIRECTOR HASEGAWA:** Okay. The implement the pilot will be part of understanding him in the feasibility study, the actual technical side of it. But the pilot would run, I would hope, for a, you know, probably at least six months. So, that we can and that's speaking from the analyst side of it, to really get a good handle on the sales, the incremental sales, conversion of sales, a minimum of six months is needed so that we get stable results. You know, we get a good track record. So, we really can

understand the financial implications if we did roll this out statewide.

**COMMISSIONER ALVIDREZ:** Thank you.

**DEPUTY DIRECTOR HASEGAWA:** Uh-huh.

**CHIEF AHERN:** Any other questions? All right. Does any member of the public want to address us at this time regarding Action Item 9b? All right, none. Do I have a motion to approve Action Item 9b in the Fiscal Year Business Plan for 2023-24?

**COMMISSIONER ALVIDREZ:** Sorry, motion to approve.

**COMMISSIONER GARRISON-ENGBRECHT:** Second.

**CHIEF AHERN:** Do we have a motion? I'm sorry, didn't hear. And a second?

**Ms. TOPETE:** I think Anthony is --

**CHIEF AHERN:** Anthony, you're a second?

**COMMISSIONER GARRISON-ENGBRECHT:** I'll second.

**CHIEF AHERN:** A very quiet second. But I might add --

**COMMISSIONER GARRISON-ENGBRECHT:** I'm second.

**COMMISSIONER ALVIDREZ:** Motion to approve.

**CHIEF AHERN:** I might add, with a great smile. All right, will the secretary please call the roll?

**MS. TOPETE:** Commission Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Commissioner Alvidrez?

**COMMISSIONER ALVIDREZ:** Yes.

**MS. TOPETE:** Commissioner Garrison-Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHIEF AHERN:** Yes.

**DEPUTY DIRECTOR HASEGAWA:** Thank you very much.

**CHIEF AHERN:** Okay. Thank you very much, Jim, for all your hard work. All right. Next, we'll go to Action Item 9c, the Fiscal Year 2023-24 Budget and Presentation.

**DEPUTY DIRECTOR BUCHEN:** I get to close this out today. I hope you're all properly caffeinated. All right.

So, I'm here to present the Lottery's Fiscal Year 2023-24 Budget for your approval. And the Lottery's budget does not take any funding from the state or federal governments and is solely funded by our operations, with the source of revenue being the ticket, the sales of our lottery tickets.

To ensure that funding for education is maximized annually, we zero-based the Lottery's operational expense budget to certify all included costs are necessary for our business operations and we confirm that funded initiatives align with both the fiscal year's business plan and the latest approved Strategic Direction.

So, although my presentation today is a high-level

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

So, this chart and the others that I'll cover today compare our estimated revenues and expenditures for the 2023-24 fiscal year to our estimate of how we will end this current fiscal year tomorrow night. Now, there is way too much detail to take in on this slide, so I'll walk through each of the main sections separately. As I go through each section, I'll summarize the changes from the draft budget that I presented last month. And just a reminder that all dollars in these slides are in thousands.

So, as you know, the Lottery's budget is a basic formula comprised of four major elements. Ticket sales revenue minus the associated price expense minus our administrative expenses equals our contribution to education.

And for the first of those major components, sales, you can see in the middle dollar column that we are projecting a total of \$8.7 billion in total sales revenue for Fiscal Year 2023-24. And looking at the far-right column, that shows that this is a decrease of \$520 million from the total sales level with which we are projected to

end this current fiscal year. This represents a 5.6 percent decrease. As I explained in last month's draft budget presentation, this year-over-year decrease is due to the much better than expected performance we had in both Powerball and Mega Millions in this current fiscal year, and I'll provide a little more detail on that in a moment.

So, if we start at the top with Scratchers, the Fiscal Year 2023-24 budget includes a sales goal of \$6.68 billion. This represents an increase of \$110 million over the current fiscal year and is driven by several factors, including having a full year of having a \$30 crosswords game and selling in Walmart supercenters, as well as an anticipated increase in our retailer network of 150 stores.

Moving to the next line, the budget includes a sales goal of \$475 million in Fiscal Year 2023-24 for Powerball. This is a decrease of \$265 million from the level with which we are projecting to end the current fiscal year, this is due to there being four different draws this year that had an advertised jackpot of a billion dollars or more for Powerball.

For Mega Millions, the 2023-24 budget includes a sales goal of \$440 million. And this is a decrease of \$350 million from the current year and is attributable to there being three different draws for which the advertised jackpot was more than a billion dollars. And jackpots of these

levels are very rare and cause our sales in these games to grow exponentially, and we cannot assume that we'll have the same amazing luck in the coming fiscal year. And to put some perspective on the seven draws combined that we experienced this fiscal year that had an advertised jackpot of a billion dollars or more, there have only ever been three other draws in Mega Millions that had an advertised jackpot of a billion or more and only one in Powerball prior to this fiscal year.

So on to the next line, the similar effect explains the year-over-year decrease in projected SuperLotto Plus sales, though on a much smaller scale. The Fiscal Year 2023-24 budget includes a sales goal of \$240 million for SuperLotto Plus, which represents a decrease of \$34 million from the current fiscal year. And that's because the SuperLotto Plus jackpot has rolled continuously since the November 16, 2022 draw. It's currently at \$72 million for this Saturday night.

Moving to the next line, the 2023-24 budget includes a sales goal of \$445 million per hotspot. This represents an increase of \$34 million over the current year, and it's primarily due to the initiative you've heard about that will provide a greater incentive to play for players to opt for Hot Spot's bullseye feature.

And lastly, the daily games comprised of Fantasy

5, Daily 3, Daily 4, and Daily Derby have a combined sales goal of \$420 million Fiscal Year 2023-24. And that represents a decrease of \$15 million over the current fiscal year, and it's primarily due to better than anticipated performance that we achieved in these games in this current year.

So compared to the sales projections I presented in the draft budget last month, the most significant changes were increases in the Scratchers estimate for both the current and coming fiscal years. Specifically for 2023-24, the Scratchers sales goal increased by \$80 million compared to the draft.

Before moving on to the next section, it's important to highlight that the projected year-over-year sales growth we are expecting is in Scratchers and hotspots. And we have more control over these games compared to some of our other products, as we can better influence sales levels by tweaking prize payouts, for example. Conversely, the product categories with the most significant projected year-over-year decreases are the ones for which performance is unpredictable due to the luck of the draw nature of the games. And I also want to caution that there's a fair amount of uncertainty in our revenue projections for the coming fiscal year due to the high levels of inflation still facing consumers.



In the next major area of the budget is price expense, which is projected to total \$5.8 billion in the coming fiscal year. This is a decrease of \$231.9 million from the current year and is driven by the overall year-over-year decrease in sales. Compared to the draft budget I presented last month, price expense for 2023-24 is estimated to be \$54.5 million higher, and that's due to the increase Scratchers sales projection.

**CHIEF AHERN:** Due to the what?

**DEPUTY DIRECTOR BUCHEN:** The Scratchers sales.

**CHIEF AHERN:** Scratchers, okay.

**DEPUTY DIRECTOR BUCHEN:** So, the Lottery has a policy requiring the director to determine that prize payout levels across all games have been optimized for the coming fiscal year. Because Scratchers sales account for more than three quarters of our total revenues and the Lottery has more direct influence on the sale of these tickets, a team comprised of business planning, sales and marketing, and finance staff considered several product plan scenarios for Scratchers with varying price point assumptions to identify the optimal mix that will yield the highest estimated contribution to education.

The Business Planning team also evaluated Hot Spot in light of the coming changes to the game to affirm that the resulting increased price payout will yield more funding

for education as compared to the status quo. The combined impact of this effort shows on this slide with the total projected price expense for Fiscal Year 2023-24 representing 66.9 percent of our totals projected sales. This is within the range of 65 percent to 67 percent that was recommended as being optimal by the study that was conducted for the Lottery in late 2020.

So, with this, the director has determined that price payout levels across all games have been optimized for the coming fiscal year. And you can also see, look on this slide, that our current year price expense is estimated to be 65.6 percent total current year sales. And that's also within the optimal range. The reason that it's closer to the bottom of the optimal range is due to the much higher than expected performance we had in Mega Millions and Powerball, which have a lower price payout compared to some of our other games.

I'll now move on to our administrative expenses, which the Lottery Act caps at 13 percent of our total annual sales revenues.

The first area of administrative expense is retailer compensation, which reflects commissions we pay to our retailer partners for selling Lottery tickets, cashing valid winning tickets, redeeming free ticket prizes and replays, and for earning incentive bonuses for selling

certain Lottery tickets with very high prices. Total retailer compensation is estimated to be \$589.7 million in 2023-24, and that represents a decrease of \$33.3 million from the current year projection, which results from the estimated year-over-year decrease in sales.

Also included within administrative expense and shown on this slide is the gaming costs, which are used to pay our contractual gaming system provider and to print and distribute Scratchers tickets. These costs are estimated to total \$160.7 million in 2023-24, which is a decrease of \$3.7 million from the current year projection. Similar to retailer compensation, the estimated year-over-year decrease in gaming costs is primarily driven by the decrease sales projection. However, this decrease is partially offset by a projected increase in Scratchers ticket delivery and support costs due to the estimated year-over-year increase in Scratchers sales.

So, compared to the draft budget I presented last month, retailer compensation and gaming costs combined for 2023-24 are projected to be \$7.1 million higher, and that's attributable to netting out the impact of the increased Scratchers projection.

A final area of administrative expense is operating costs, which are estimated to total \$380.6 million in 2023-24. If we exclude the reserves, which we'll talk

about later, the year-over-year increase in operating costs is projected to be \$35.2 million, and I'll detail this increase by going through this entire section line by line.

I'll spend the most time on the first item within operating costs, which is personal services for the projected increase of \$14.7 million over the current fiscal year. This year-over-year growth is driven by increased projected employee benefit costs for the coming fiscal year, a higher-than-expected vacancy rate in the current fiscal year, and the inclusion of 37 new positions beginning in Fiscal Year 2023-24 that are needed to address critical operational needs.

Approximately \$3.4 million of that \$14.7 million year-over-year increase is to fund the 37 proposed new positions for the Lottery. These positions fall into two broad categories, positions that are needed to enable the Lottery to provide a higher level of service to our external and internal stakeholders, and positions that are needed to strengthen internal processes and the back-end support necessary to keep pace with our growth and to proactively prevent deficiencies. Each of the 37 requested new positions is essential to our business operation and will enable us to carry out the business plans for strategic objectives more efficiently and effectively.

This slide shows how the 37 new positions break

out between the two groupings that I just mentioned. First of all, it shows that 17 of the requested new positions are to provide an enhanced level of customer service to our external and internal stakeholders. They are comprised with the following. Nine of these positions are in the Finance Division. Eight of these, plus an existing vacant position that we are reclassifying, will be assigned in each of the Lottery's district offices to work on both the paying claims of the district office program and to assist with sales functions. This will allow the sales manager and supervisors in each office to focus more on direct sales operations rather than having to back up the Pay at the DO program.

To provide historical context on the Pay at the DO program, in their approval of the Lottery's 2018-19 fiscal year budget, the Commission approved a total of 30 new positions to be spread among the nine district offices for Pay at the DO. The need for 30 positions was estimated based on historical price claims data for each district office.

As the Lottery gained valuable experience in first piloting the Pay at the DO program in the Sacramento district office and then expanding the program to the Fresno and San Diego district offices, the Lottery was better able to protect the staffing and oversight needs of the program.

So, based on this, three of the 30 staff positions that were originally approved by the commission for Pay at the DO were reclassified to manager positions to enable more managerial responsiveness and direct oversight of the program. The complementing those manager positions with a new analyst position in each district office to assist with Pay at the DO program and sales functions will allow for a dedicated back up to the Pay at the DO supervisor in each office and will also help to ensure that where applicable, what is done in the nine district offices for Pay at the DO is consistent with established price payment processes for the price claims that are submitted to headquarters.

The remaining new position in the Finance Division, included in this first bullet, is being converted from limited term to permanent since we have an ongoing need for the coordination and liaison duties this position performs for the Lottery's financial system, including administering system access, managing changes to modules and reports, and tracking and ensuring resolution to issues.

Six of the 17 new positions reflected in this first bullet are needed in the Sales and Marketing Division. Five of these positions are being converted from limited term to permanent in the Lottery's northern distribution center to address increases in the number of Scratchers orders and the number of packs per order. The remaining new

position for Sales and Marketing in the first bullet is a permanent intermittent position that is needed to better meet business needs of the Lottery's northern California route sales model, which Jim spoke about earlier.

And that's needed to reduce the need for sales supervisors to cover for vacancies, vacations and other absences.

One of the 17 positions in this first bullet is needed in the Human Resource Division to serve as an internal expert over the Lottery's change management program and provide guidance to managers regarding development of strategies to implement and implement operational changes and ensure effective ongoing change management.

And lastly, one of the 17 new positions is in the Security and Law Enforcement Division, SLED, and is needed to address the increased number of prize claims requiring security review to provide more timely resolution and faster price payouts to the impacted claimants.

As shown on the second bullet of this slide, 20 of the new positions are needed to strengthen our infrastructure and internal processes, and these positions break out as follows.

Seven of these positions are in the Information Technology Services Division and are needed to administer and support the Lottery's cloud environment to strengthen our cyber security posture, help manage and professionally

develop staff in the Gaming Vendor Management and Network Engineering and Administration units, and formulate strategy and policy based on best practice to lead implementation efforts to improve performance.

Seven of these proposed positions are in the Operations Division. Five of these are to support a new Boards and Outreach unit which is responsible for two primary functions. One, to review payment requests from vendors where no procurement method was established to determine if the Lottery should pay the claim or take other action. And two, to review requests to dispose of Lottery equipment to ensure the method of disposal provides the best value for the Lottery. For the remaining two new positions in Operations, one is required to administer the Lottery's business continuity program and the other is needed to act as a facilities project manager to support statewide project developments.

And three of the 20 new positions in this second bullet are in SLED. Of these, one would support and enhance SLED statewide training, recruitment and fleet management program. One would be located in Southern California to strengthen the Lottery's statewide physical security program. And one new position would be a permanent civil service high-level manager position to complement SLED's executive management team to provide stability and



continuity to SLED's administrative and civilian functions, given that the deputy director and assistant deputy director positions are both governor appointees and required to be peace officers.

And two of the 20 new positions in this second bullet are in Sales and Marketing. These will provide analytics, data mining, reporting, contract administration and support, and program oversight for the sales distribution support and distribution teams. Those teams include the Scratchers Inventory Management Center, the Northern and Southern Distribution Centers, the Retailer Network and Applications unit and the Lottery's Customer Service Center.

And lastly, one of the new positions in this second bullet is needed in the Human Resource Division to develop and coordinate leadership training and development efforts, including a mentoring component.

It is important to note that the Lottery's total expenses for Personnel Services, which comprises the salary and health benefit costs of all Lottery employees, including the requested 37 new positions, as well as temporary help and overtime, are estimated to be just 1.6 percent of our projected revenues for Fiscal Year 2023-24.

And before I leave the Personnel Services section, I want to point out that the unions are currently

negotiating bargaining unit contracts. Without knowing the outcomes of those negotiations, should there be changes to salaries impacting Lottery employees during Fiscal Year 2023-24, they will be funded from our administrative spending reserve.

So, going back to operating costs. The second line is the Marketing budget plan which reflects an estimated year-over-year increase of approximately \$15 million. And the largest driver of this increase is to expand the Lottery's Scratchers repositioning initiative which is anchored by the tag line, A little play can make your day. And as you've heard, that effort puts more emphasis on the fun and entertainment aspects of Scratchers games to build a stronger appeal for these games and increase frequency of play among casual and non-players. And another factor contributing to the year-over-year increase in the Marketing program is projected cost increase of current advertising efforts such as the agency fees.

Moving down to contractual services line. The projected year-over-year increase of \$3 million is primarily due to a higher cost for IT services and to continue investing in a public affairs agency contract to execute a strategy that uplifts the Lottery's mission, this paints the Lottery in favorable light among California adults. That latter effort began in this current fiscal year through one

of the Lottery's existing advertising agencies and is designed to amplify the Lottery's mission and help the public understand how the Lottery works, where our funds are spent, and how California benefits from having a state Lottery. Continuing this effort in the coming fiscal year through a dedicated contract will help bolster public confidence and support and ultimately generate more supplemental funds for public schools.

Moving to the next line. Depreciation costs have a projected year-over-year decrease of \$1.5 million. This is due to us retaining some equipment beyond the end of its anticipated useful life. As well as some cost per Lottery vehicle shifting to operating expenses as the Lottery is leasing these vehicles rather than purchasing them.

And next is the operating expense which includes typical overhead items such as telecommunications, expendable equipment, facility maintenance and operations, vehicle operating costs and utilities. This reflects an estimated year-over-year increase of just under \$4 million which is primarily due to a computer refresh, certain costs that cannot be depreciated for the Lottery's renovation of its northern distribution center and an increase in leased vehicles.

And the last two items within our operating costs are the reserves. In the current year we've zeroed out the

reserves since the items that we funded from them are already reflected as expenditures within the other operating costs lines that appear above the reserves. And for physical year 2023-24, we are again maintaining a \$5 million dollar reserve for insurable risk to cover physical exposure for the areas of our organization that we are continuing to self-ensure.

**CHIEF AHERN:** Can I ask a question on the reserve part --

**DEPUTY DIRECTOR BUCHEN:** Uh-huh.

**CHIEF AHERN:** -- Insurable risk? For years it's been \$5 million dollars. As your Lottery team grows and the business gets larger, are you looking in the future to increase that amount?

**DEPUTY DIRECTOR BUCHEN:** That's a great segway for what you will see at the September Commission Meeting. So, the Lottery has a policy where every five years we conduct and analysis of our risk, kind of the exposure to risk and based on that we make a determination of what our kind of risk appetite should be and what we're willing to take on as, you know, we can make a payment as a claim comes in versus, we should purchase insurance for this.

**CHIEF AHERN:** Okay.

**DEPUTY DIRECTOR BUCHEN:** So, in that upcoming analysis --

**CHIEF AHERN:** Okay, thank you.

**DEPUTY DIRECTOR BUCHEN:** -- we can talk about that. And I think I am safe to say that, as a spoiler alert, I think we're going to recommend \$5 million still.

So, shown on the next line the 2023-24 budget includes just over \$63 million in the administrative spending reserve. And this amount is derived by formula and is 13 percent of our total sales projection minus the sum of all administrative expense items above this line including the retailer and gaming costs from the prior slide. This administrative spending reserve acts as a safeguard against uncertainties. Such as if our sales do not come in as projected. And it allows us to maintain operations when unanticipated needs arise during the current year. And this is especially important since in zero basing the Lottery's budget, we only include funding for items that are certain to be needed and we do not build any contingency funding for things that may or may not happen.

So, looking at the bottom line, the total administrative expenses, 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 2023-24. That's precisely 13 percent of the \$8.7 billion in projected sales.

Pursuant to the Lottery Act which prevents us from

retaining earnings from year to year, any unspent administrative funds below the 13 percent cap, including unspent funds within 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 has transferred more than \$1.4 billion in administrative savings to education to date. Compared to the draft budget I presented last month and excluding the reserves, total operating costs for 2023-24 are projected to be \$1.3 million higher and that's primarily due to refinement of personnel costs.

So, I spent a lot of time talking about our 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 more than 81 percent of our projected administrative expense for 2023-24 is comprised of retailer compensation, gaming expenses, and marketing costs. And these three components of our administrative expense are unique to our business operations and directly influence the sales and funding for education that we are able to provide.

Our other operating cost, which is our overhead, is estimated to account for less than 19 percent of our total administrative expenses and only 2.3 percent of our total projected revenues for the coming fiscal year. That

highlights that we do a tremendous job of managing the cost within our control which enables us to maximize our contribution to education.

That of course is the whole reason we exist. Sales minus price expense minus administrative expenses actually equals our net operating income. There are a few additional items that determine the final contribution to education amount. Both unclaimed prizes and interest earnings on our cash sitting within the State Treasury are mandated to be transferred directly to education.

And like I mentioned any unspent funds within both reserve line items also will be transferred to education. So, assuming both the reserves remain unspent, the total contribution of public education is estimated to be more than \$1.86 billion in Fiscal Year 2023-24. This represents a decrease of \$318.9 million from the amount funding we're estimated to provide to education in this current fiscal year. And again, that's primarily due to the odds defying performance we had in Mega Millions and Power Ball in the current fiscal year.

So, this year-over-year decrease should not take anything away from the impressive performance we are projected for the coming fiscal year. In fact, the sales goal of \$8.7 billion and the projected contribution to education of more than \$1.86 billion are both the highest

levels included in the Lottery's budget to date. Compared to the draft budget I presented last month, the projected contribution to education for Fiscal Year 2023-24 is \$17.1 million dollars higher and that's due to the increased Scratchers sales projection.

So, to further demonstrate our growth trajectory when comparing our estimated sales and contribution to education for Fiscal Year 2023-24 to what was budgeted in this current fiscal year. So, the 22-23 column represents what the commission approved last June. You can see we were projecting modest growth in both sales and contribution to education.

Still, there's no question that outside of extraordinary circumstances are growth and revenues and the resulting contribution to education is beginning to level off as compared to the significant annual growth we achieved for the first several years following enactment of AB142. And AB142 was the legislation that authorized higher price payouts and beginning with the 2015-16 fiscal year, it requires that the Lottery's net revenues allocated to public schools as reflected in the Lottery's commission approved budget be at least as much as were allocated on average in the prior five fiscal years.

Including our projected net revenues for the current fiscal year and excluding unclaimed prizes and



interest earnings in all years, the orange shaded row, supposed to be orange, on the bottom shows the average of the contribution to education for the past five years is \$1.842 billion dollars. And again, excluding unclaimed prizes and interest earnings and assuming the reserves remain unspent, our projected contribution for Fiscal Year 2023-24 is just over \$1.817 billion which would fall short of the five-year average by \$24.7 million dollars.

Now admittedly, our revenue and expenditures projections for this coming fiscal year are on the conservative side but unusual circumstances in four of the last five fiscal years have driven up the five-year average to the point where we project, we will not meet the requirement barring some extraordinary condition arising during the course of the 2023-24 fiscal year.

On Fiscal year 2018-19 is the first year included in this current five-year average. And that year's contribution to education benefited greatly from a then historic \$1.6 billion advertised Mega Millions jackpot.

The contributions in both Fiscal Year 2020-21 and 2021-22 were unusually high due to the pandemic fueled surge in our sales that we experienced as consumers were either unwilling or unable to participate in other forms of entertainment and leisure. And like we discussed, this current fiscal year's contribution to education is unusually

high due to the statistically rare number of jackpots over \$1 billion we had in Powerball and Mega Millions. Although AB142 does not include any consequences for failing to meet the five-year average provision, we have a duty to disclose this matter in the spirit of transparency.

As I mentioned earlier, due to our annual sales growth beginning to taper off, we expect to be in a similar situation with the respect to this provision in developing the budgets for the foreseeable future. It's worth noting we could go through the exercise of creating a budget that meets this five-year average for 2023-24, but it would not be responsible for us to do so, since such a budget would have to include unfounded assumptions in either our sales and/or revenue expense assumptions.

And you could also see on this slide that we failed to meet the five-year provision in Fiscal Year 2019-20 but that was an entirely different circumstance. So, when we developed the Lottery's budget for 19-20, we actually did meet the provision the Commission approved budget assumed that the contribution to education would exceed the five-year average at that time.

During the course of 19-20, of course, was when the pandemic hit and so, at the onset of the pandemic, the stay-at-home orders actually shuttered some of the stores that Lottery is sold in and it drastically changed consumer

behavior to where when they did go shopping, they would only shop for essential items. So, we had a very drastic decrease in Lottery sales that year. And then as the -- later in that fiscal year as consumers started adapting to the new normal, the Lottery actually had some distribution challenges where we couldn't keep pace with that demand. So, all those items led to us actually missing the five-year average by more than \$151 million that year. But again, that was during the course of the year and not in preparing the budget.

So, ending on a more positive note, my final slide shows how our sales and contribution to education have trended over the last 22 years. And this chart 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.

So, this chart accounts for the different scales between our revenues and contribution to education. The gold bars reflect our sales revenue, and the blue line reflects our contribution to education. And the vertical line towards the middle of the chart differentiated between before and after AB142 was fully implemented. You can see that not only have our sales risen sharply since AB142 was enacted, but more importantly our contribution to education has continued to increase, which was the whole point of

AB142. And even though we are estimating that our sales and contribution to education for Fiscal Year 2023-24 will be less than what we will experience 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 AB142.

And with that, I'd quickly like to recognize my team that builds the Lottery's budget and tracks expenditures throughout the year. The team is comprised of our budget officer, Brad Grosso (phonetic) and six analysts, Jannae (phonetic), Rit (phonetic), Larry (phonetic), Ruth (phonetic), Greg (phonetic), and Francisco (phonetic). I'd like to thank them all for the wonderful job they did putting this budget together.

That concludes my presentation. I ask for your approval of the Lottery's 2023-24 budget and I'm happy to answer any questions.

**CHIEF AHERN:** All righty. A question time. Commissioners, any questions?

**COMMISSIONER MILLS:** I do. Hi, Nick. First, thank you, for that really detailed presentation. I'm going to start by just saying I really appreciate the approach that this organization takes to budgeting, incredibly data driven research based, statistical, all kinds of analysis informed by history, that really solid approach. The thing

that I'm struggling with is unfortunately it's not compliant and I'm really struggling with that and I feel like this is a very comfortable, conservative budget. Certainly, it has its uncertainty. Every budget has uncertainty but the non-compliant part is -- I'm struggling as a commissioner to pass a budget that isn't compliant with our rules and regulations and our founding documents and I think that, you know, the intention of that rule is to really be inspirational, right. To encourage us to aspire to do these things, and if we kick off the year saying that no way we can meet it, that just feels to me like disrespectful and in defiance of our formation rules and regulations.

And I totally see why you brought this budget forward. I get it. I'm a CPA, I'm an accountant. I understand the want and need to be like really fully realistic, you know, or as realistic as you can be but I feel like in the spirit of being aspirational and respecting our formation documents that we should approve a budget that shows what is the pray to the jackpot gods plug, right. That needs to be in, you know, in the budget to be compliant. And so, that we can see these are the researched, statistically viable, responsible numbers and then here is kind of the pray to the jackpot gods plug to, you know, to be compliant and we're going to pray and we're going to hope that they listen to our prayers and that they

do the right thing so, that we can continue to meet our mission to support higher education or public education and at the levels that we've been able to in the past but that we know, you know, kind of the difference between what the, you know, the data driven numbers are and the, you know, what we need to, you know, to meet the rules. And I think if we do that, it's easier to ask for forgiveness in the end. And so, it's a philosophical thing for me. And I just wanted to voice that and you'll hear that show up in my vote.

**DEPUTY DIRECTOR BUCHEN:** I understand. And one thing. So, we, with the timing, we didn't you know, do a full-blown analysis on what it would take to actually be in compliance with that provision for 2023-24. But kind of off the cuff, like you said if we'd assume that we're going to have higher jackpots in our multistate jackpot games for example, we'd estimate that it would be around \$60 million in additional sales that we would need., which isn't on the surface, it's not like too offensive to assume that we could get that. And the reason it's around \$60 million is of course about half of that would be for the prize expense and then another percentage would be for the, you know, gaming system provider as well as the retailer compensation.

So, the challenge we see is we could certainly have done that exercise for this current, you know, the 23-

24 budget but you're kind of then building a house of cards that sets you up for future budgets that you're going to have a similar situation and you're stacking, you know, kind aggressive assumptions on top of aggressive assumptions. So, we see the house eventually falling so, that's why we chose to be on this side of the the house of cards.

**COMMISSIONER MILLS:** Yeah. And I think that's where we also have a philosophical difference. I think it's okay to put in, you know, your budget is your road map, right. And your budget shows your values and your budget shows what you're aspiring to do. And I think we do aspire to meet the regulations. And it's also like not that big of a gap you put reserves in on the down side. Like, I don't know.

So, we do have a philosophical difference there but -- and I appreciate and respect your, you know, your approach as well. And thank you for allowing me to express mine.

**DEPUTY DIRECTOR BUCHEN:** No problem. And I actually, I do have one additional thing that kind of makes it tricky as well. So, our sales goals for the coming fiscal year that are sales force earns incentives based on their performance against those goals. So, to the extent that we build in goals that we kind of know are not the most achievable, we're kind of setting our sales force up to not

have the motivation they need to, you know, do the best that they can do to drive Lottery revenues. So, that's another element that comes into play as well.

**COMMISSIONER GARRISON-ENGBRECHT:** Can you share a little bit more about how we disclose this to the Office of Accounting and Budget to the Governor's Office?

**DEPUTY DIRECTOR BUCHEN:** Sure. So, similar to when this happened in 2019-20, we drafted a memo for the Governor's Office and the Department of Finance and have shared with, you know, inside the administration. And then of course the -- before we did that, we briefed each commissioner individually to make sure you're aware.

**COMMISSIONER GARRISON-ENGBRECHT:** Thank you. And I'll just provide a counter narrative. I appreciate the conservative numbers and again, philosophically to maybe under promise and over deliver. And so, I appreciate the diligence that you and your team have gone into putting together achievable sales goals with realistic numbers about our contribution to education. I understand that it's a philosophical difference but I appreciate the current approach and the current budget that you proposed today.

**CHIEF AHERN:** And I'd just like to comment that the -- over the last five years we've had those extraordinary events that you talked about, you know, from the pandemic to the seven jackpots all exceeding \$1 billion.



One near \$2 billion.

It draws a lot of revenue that, as an accountant, it's very difficult for you to anticipate let alone the other natural disasters that this state has seen in a world of wildfires, floods, which all have an effect on our economy which has an effect on the amount of money that is gained through the California Lottery.

So, I understand the challenge of putting together a budget without forecasting those extraordinary events because how could you forecast such things that I just spoke about. But I really appreciate the fact that you put together a budget that's consistent with your strategic plan, your business plan, and our financial plan and budget for the next year that I think is attainable. And with adjustments as you've made every year since the beginning of the Lottery. And so, to stack those issues, we've seen other government entities struggle with their budgeting for future events that causes them great difficulties in the future.

I think it's a very conservative budget. I think it's fair. I think, we've -- Alva, our director, has done his job in being transparent and notifying the Commissioners of the issues with the five-year plan with the making notification to the proper officials to notify them of what we plan on doing. And I think it's -- all the steps have

been taken to be successful for our educational program.

**COMMISSIONER ALVIDREZ:** I feel compelled to say a few things as well. Deeply appreciate the context that's been provided by commissioners and the chair. But also, deeply appreciate the flag that's raised as it relates to compliance because that is our role. That is the role of commissioners to raise those flags when we see some discrepancies or we see some challenges with what are mandates are, what our requirements are and what our roles are on this commission as it relates to kind of our stewardship and our responsibility to the public. So, thank you for all of the comments, plus one to all, but deeply appreciate the work that's gone into this budget.

**COMMISSIONER MILLS:** May I just make one other comment? I just want to make a request that we -- I too really appreciate the transparency in this. I think the transparency is super, super important and thank you to my fellow commissioner for asking the question about how do we make sure the Governor's Office and the appropriate people know this is what we're expecting, I think that's super important. And my request would be for us to just to continue to monitor this as you bring forward how we're performing against budget. That we have some sort of monitoring mechanism about how we're performing against compliance as well. Because my hunch is that we're probably

going to --

**DEPUTY DIRECTOR BUCHEN:** Right.

**COMMISSIONER MILLS:** -- hit this out of the water, right. And so, just trying to stay a -- I mean, anything can happen but my hunch is that we will ultimately be in compliance and being able to monitor against that would be super helpful. Thank you.

**DEPUTY DIRECTOR BUCHEN:** Okay. Understood. We'll continue our prayers to the Lottery gods.

**COMMISSIONER MILLS:** Pray to the --

**DEPUTY DIRECTOR BUCHEN:** Yeah. Unfortunately, the jackpot gods can go the other direction too. And we've seen that.

**CHIEF AHERN:** In regards to Action 9c, does any member of the public want to address the commission at this time regarding Action Item 9c? Okay. With that, do I hear a motion to approve Action Item 9c Fiscal Year 2023-24 budget and presentation?

**COMMISSIONER GARRISON-ENGBRECHT:** Motion to approve.

**COMMISSIONER ALVIDREZ:** Second.

**CHIEF AHERN:** We have a motion and a second. Will the Secretary please call the role.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Abstain.

**MS. TOPETE:** Commissioner Alvidrez?

**COMMISSIONER ALVIDREZ:** Yes.

**MS. TOPETE:** Commissioner Garrison-Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHIEF AHERN:** Yes. All right, Nick. Thank you very much for all your hard work and the pressure of putting a huge budget together on so many issues.

**DEPUTY DIRECTOR BUCHEN:** I appreciate it, thank you.

**CHIEF AHERN:** Okay. We can move on to Item Number 10, which is Commissioners' General Discussion. Do any Commissioners have anything they'd like to bring up at this time?

**COMMISSIONER MILLS:** I would. Thank you, Chair. I'd like to just make a request that we consider inviting the director and the staff to provide us with an informational presentation about the Mission, Vision, Values project. And I know we've invested in resources to -- we were at a little bit of a lull with the pandemic thing that happened that we've invested in resources now and would love to hear, and especially, for our newer commissioners, you know, kind of how it came about, the progress that has been made to date, and then I think most importantly like the vision for the future and the plan for the future on the

Mission, Vision, Values project. So, at the right time, defer to staff and leadership on the right time for that but would if my fellow commissioners agree, would love to have an informational presentation.

**CHIEF AHERN:** I think that would be a good idea for future directors' report to this body.

**DIRECTOR JOHNSON:** Thank you, commissioners. In fact, we have just completed some preliminary steps for this specific details of this program. They're still under wraps because they're being finalized.

As you know, a couple years ago we set a base line with our employee engagement survey to see where our employees are. And we look to be updating that soon. But as we have more recently completed some initial steps to implement this Mission, Vision, Values program, I'm looking forward to bringing back to the commission details that will become apparent as we begin to put the details in place and implement them. So, we're just now launching it. A lot has not been unwrapped as I speak but it's coming very soon. And when we can talk about those details and some of the specific outcomes, we'd be happy to do that. So, I'll definitely flag that for a future commission meeting and we look forward to talking to you about it.

**CHIEF AHERN:** Okay.

**COMMISSIONER MILLS:** Thank you.

**CHIEF AHERN:** Fantastic. Anything else? Okay. Moves us up to Item Number 11, which we have tentatively scheduled Commission Meetings on September 19<sup>th</sup> and November 9<sup>th</sup>. I hope those dates are compatible to your schedules.

Item Number 12 is a public discussion. Is anyone here that wishes to address the Commission at this time? Seeing none, hearing none. We'll move for adjournment.

Thank you very much and again thank you for allowing me to continue on as chairperson and thank the staff for all your great work and thank you for watching and viewing us on your Teams program. Hope it was entertaining and informative. With that, go out and have a great day. Enjoy the heat.

(End of Recording)

**(MEETING ADJOURNED)**

