

# CALIFORNIA STATE LOTTERY COMMISSION

Minutes – May 23, 2024

Sacramento, California

## **1. Call to Order**

Chairman Gregory Ahern called the meeting of the California State Lottery Commission to order at 10:00 a.m.

## **2. Pledge of Allegiance**

Chairman Ahern led the Pledge of Allegiance.

## **3. Roll Call**

Chairman Ahern asked Elisa Topete to call the roll.

Commission Members Present:

Chairman Gregory Ahern

Vice Chair Keetha Mills

Commissioner Alexandre Rasouli (Left the meeting at 11:38 a.m.)

California State Lottery staff and presenters:

Harjinder K. Shergill Chima, Director

Fernando Aceves, Chief Counsel

Jim Hasegawa, Deputy Director of Business Planning

Nicholas Buchen, Deputy Director of Finance

Jennifer Chan, Deputy Director of Information Technology Services

Sharon Allen, Deputy Director of Sales and Marketing

Elisa Topete, Assistant to the Commission

Rebecca Estrella, Recording Secretary

## **4. Consider Approval of the Agenda**

Chairman Ahern asked if the Commissioners had any changes to today's agenda. Commissioner Mills requested that the voting items be presented before the Informational Items due to Commissioner Rasouli's early flight causing the lack of a quorum. Commissioner Mills made the motion to approve the amended agenda and was seconded by Commissioner Rasouli. The agenda passed unanimously. Consequently, Action Items 8a through 8c were taken up first.

## **5. Approval of the Minutes**

Chairman Ahern asked if there were any additions or corrections to the March 21, 2024, minutes. Commissioner Mills made the motion to approve the minutes of the March 21, 2024, Commission Meeting and was seconded by Commissioner Rasouli. The minutes passed unanimously.

## **6. Informational Items**

### a. Director's Comments

Director Chima began her presentation with the Lottery's contribution to education estimate which is currently almost \$1.9 billion, which is significantly higher than expected, by 25%. The Lottery is on track to support public schools and universities in California with more than \$2 billion for the third year in a row.

Sales are now exceeding \$8 billion, which is the earliest milestone in the Lottery's 39-year history. Scratchers<sup>®</sup> sales are on track with the annual goal and is edging out last year by 2%. All of the draw games combined have brought in a record \$2.4 billion. The multi-state games as well as SuperLotto Plus<sup>®</sup>, have done exceptionally well. Mega Millions<sup>®</sup> and Powerball's<sup>®</sup> rollover luck has contributed to the Lottery's overall success with these games offering players billion-dollar dreams 13 times in the past ten months alone. The Daily Games category is still above goal and Hot Spot<sup>®</sup> sales have grown over the past year with the prize optimizations that were made in October.

### b. Master Qualitative Research Agreements Presentation

Jim Hasegawa, Deputy Director of Business Planning, presented an informational item on seven service agreements for qualitative research services. This type of research is about collecting and analyzing non-numerical data to understand concepts, opinions, or experiences. Although the procurements did not require Commission approval, staff felt that in the spirit of transparency, it was appropriate to inform the Commission about the results since it was a new process, and two vendors were awarded more than one contract. Mr. Hasegawa provided background on the Request for Proposal process and contract awards.

The agreements are routing for final approvals with an anticipated contract start date of June 15, 2024. Each agreement has a base term of two years with two optional one-year extensions. Business Planning and Research will evaluate during base contract terms if this solicitation approach resulted in a greater value to the Lottery than prior project-by-project solicitations. The agreement amendments may have to be approved by the Commission if the contract expenditure authority increases over \$250,000.

Commissioner Mills asked if the projects are pre-defined in the contract. Mr. Hasegawa responded that the actual projects are not in terms of detailed specifications because staff may need data on certain types of players or frequency of play. The contracts do define the scope and types of project assignments. Ms. Mills also asked if there is flexibility in the contracts, either to shift or change projects or add projects that might come up in real time. Mr. Hasegawa explained that if there was an urgent need to work on a project, staff would promptly talk to the vendor to schedule time to begin work immediately. The

contracts do not specify exactly when each of the qualitative research assignments would be done, which gives staff great flexibility.

c. Draft Fiscal Year 2024-25 Business Plan

Mr. Hasegawa provided information on Lottery sales by fiscal year and stated that the current year is on pace to set another sales record and the last four fiscal years have seen sales far exceed pre-pandemic levels. Lottery playership continues at high levels and he provided additional sales information on Scratchers, Hot Spot, the Daily Games, Mega Millions and Powerball. He provided information on how the Scratchers category repositioning efforts significantly increased Scratchers playership and brought new players into the category. He also showed some data on how casual players are playing more frequently as perceptual barriers are weakening. He stated that the jackpot games provide a higher share of Education contribution than their share of sales.

Mr. Hasegawa provided the five objectives for Fiscal Year 2024-25. The first is to complete planning and begin celebrating the Lottery's 40<sup>th</sup> Anniversary. The Lottery will use the year 2025 to celebrate the anniversary, rather than the specific date of October 3, 2025, and launch a \$40 Scratchers game commemorating the Lottery's 40<sup>th</sup> anniversary. The second is to expand Scratchers sales by removing barriers to play among infrequent players. Staff plans to continue the Scratchers category repositioning campaigns and develop a pilot for using debit cards at selected self-service machines. The third is to grow draw game sales, particularly in jackpot games and Hot Spot. The Mega Millions consortium is looking at enhancements to the game and Lottery staff is continuing to explore draw game product modifications. The fourth is to explore new ways to expand and utilize the Lottery's strong retail network. New trade channels are being pursued in recruitment efforts and staff is trying to improve presence in existing locations and are also developing a pilot for new digital signage. The last objective is to continue to improve knowledge and perceptions about the Lottery.

Commissioner Mills asked why the Lottery is only releasing a \$25 and \$40 Scratchers game and not producing a \$50 game, which is currently what the industry trend is. Mr. Hasegawa stated that the \$40 game specifically, will tie in with the Lottery's milestone anniversary, which makes it more of an event and will broaden the appeal of the higher price point. Based on staff research, data showed that the core players were trying to find the optimal prize payout mix, and with their spending levels, it didn't seem to be the right time to introduce a \$50 or \$100 game. Perhaps in the future, the Lottery may try to put an effort into the casual players a bit more and boost their sales to have a larger pool to draw into higher price-point products. At the next meeting, Commissioner Mills would like information on how the Mission, Vision, Value Project is interwoven into all of the different goals and tactics.

d. Draft Fiscal Year 2024-25 Budget

Nicholas Buchen, Deputy Director of Finance, provided an overview of the Lottery's Draft Budget for the 2024-25 Fiscal Year, which begins July 1<sup>st</sup>. He began with a quick recap of the zero-based budgeting process, in which staff develops the Lottery's operational expense budget from the ground up. The Business Planning and Research Team developed a preliminary sales goal by product, which was used to determine the associated prize expense, and this allowed staff to then develop the retailer compensation and gaming costs estimates since these are primarily driven by sales. The Budget Team then focused on analyzing requests for discretionary spending, considering factors such as alignment with the Lottery's strategic direction, the cost compared to the anticipated short-term and long-term benefits and the availability of resources. The result of this process is the Draft Fiscal Year 2024-25 Budget.

Mr. Buchen went over the comparison of the Lottery's estimated revenue and expenditures for the 2024-25 Fiscal Year to the estimate of how the Lottery will end the current fiscal year on June 30<sup>th</sup>. He stated that the Lottery's budget is a basic formula comprised of four major elements; the projected ticket sales revenue minus the associate prize expense minus the Lottery administrative expenses equals the contribution to education. Mr. Buchen provided additional detail on each of the four major elements. He explained that assuming the reserves remain unspent and excluding unclaimed prizes and interest earnings, 66 percent of the projected sales for Fiscal Year 2024-25 will go toward paying prizes; 22 percent is estimated to provide supplemental funding for education; eight percent is projected to be used to compensate the Lottery's retail partners and to pay for gaming costs; and less than four percent is estimated to be used for operating expenses. The eight percent for retailer and gaming costs combined breaks out as retailer compensation accounting for approximately seven percent of total sales and gaming costs accounting for roughly one percent. All of this adds up to 95 cents out of every dollar the Lottery brings in is returned to the public in the form of funding for education, prizes paid to Lottery players, and compensation paid to retailer partners.

Commissioner Mills asked if the optimal prize payout was included in the budget version that was presented today to which Mr. Buchen replied that it was not. He stated that the Scratchers are the biggest component in that analysis because that is what staff has the most control over so with the new proposed price points, staff will have to factor in the different scenarios of how many releases there will be in specific games. All of that analysis will be done and reflected in the budget for next month's Commission meeting.

Commissioner Mills asked how the PR campaigns were shifting money out of Marketing and how they work together. Mr. Buchen stated that in this current fiscal year and the previous year, it was funded within the marketing program and staff

leveraged existing resources in that area. Sharon Allen, Deputy Director of Sales and Marketing, stated that her staff works very closely with the Public Affairs & Communication (PAC) team. The Lottery's media agency buys all of the media to make sure that we are the most efficient and staff can recognize the best rates and are mindful of who the audiences are that the Lottery is trying to reach with each effort. Carolyn Becker, Deputy Director of PAC, added that while her team prioritizes the importance of the education campaign, staff is not doing it at the expense of other priority initiatives for the department.

Commissioner Mills stated that the State budget is declining and asked if this was impacting the Lottery's budget. Mr. Buchen explained that most of the items such as vacancies and the spending freeze, don't directly impact the Lottery. Ms. Mills asked if the Return to Office Initiative costs are considered in this budget. Mr. Buchen stated that his staff is continuing to assess future costs, but it is not yet known. Rather than guess, staff will earmark a portion of the administrative spending reserve for that purpose.

Commissioner Mills was proud of the fact that even with the budget declining, it still does maintain that over \$2 billion will still be contributed to education. She thanked Mr. Hasegawa and Mr. Buchen for bringing the additional analysis and data around some of the Draw Games and what is driving the decrease. The Lottery organization and the Commission Board highly values compliance and they value data and the reasonableness of the data and setting reasonable expectations for what we think we can actually do based on the market environments around us.

## **7. Consent Calendar**

## **8. Action Items**

### **a. Ratification of Public Website Contract Termination**

Jennifer Chan, Deputy Director of Information Technology Services, requested ratification of the contract with ICF Resources LLC as a new contract has been fully executed to continue supporting the Lottery's Public Website Services (PWS). Through the PWS, the Lottery aims to elevate its communication and digital presence and continue engaging with Lottery players, retailers, and other stakeholders while enhancing the Lottery's commitment to promoting responsible gaming in California.

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

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

b. Microsoft Unified Enterprise Performance Level Support

Jennifer Chan, Information Technology Services requested Commission approval to renew the Microsoft Unified Enterprise Performance Level support agreement annually for a total period of three years. The Microsoft Unified support agreement allows the Lottery's Information Technology Services Division to obtain product support services directly from the Microsoft Corporation.

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

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

c. Scratchers® Core Game Profile Templates

Sharon Allen, Deputy Director of Sales and Marketing stated that the Lottery utilizes templates approved by the Commission to create prize structures for Scratchers games. Commission approval is required to create new Core Game Profile Templates and provide greater variety in game design and price categories.

Commissioner Mills asked how staff determines the reasonableness of the templates and if outside experts and best practices are used, or if they compare what other states are doing. Ms. Allen stated that staff looks across the lottery industry to see what other jurisdictions are doing and works closely with the Lottery's three Scratchers vendors who provide information on what is performing well in the industry. Staff also performs their own consumer research and player research that tests the appeal of the templates and price structures to see if it delivers a player experience that is engaging and exciting.

Chair Ahern asked if other states have higher price points than the Lottery is looking at. Ms. Allen stated that many states have \$50 and \$100 games.

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

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

**9. Commissioner General Discussion**

Chairman Ahern asked if the Commissioners had anything they would like to discuss.

**10. Scheduling Next Meetings**

The next Commission Meetings are tentatively scheduled for June 27, September 26, and November 21, 2024.

**11. Public Discussion**

For Public Discussion, Chairman Ahern sought public comments or questions. No one came forward so he proceeded with the next agenda item.

**12. Adjournment**

Meeting adjourned at 11:53 a.m.