

STATE OF CALIFORNIA  
TRANSCRIPT OF PROCEEDINGS

CALIFORNIA STATE LOTTERY COMMISSION  
COMMISSION MEETING

**TIME:** 10:00 a.m.  
**DATE:** Thursday, March 25, 2021  
**PLACE:** Held remotely consistent with Executive Orders  
N-25-20 and N-29-20 using the Microsoft Teams  
platform

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**A P P E A R A N C E S**

**California State Lottery Commission**

Gregory Ahern  
Chair of the Commission  
Commissioner

Peter Stern  
Vice Chair of the Commission  
Commissioner

Nathaniel Kirtman, III  
Commissioner

Keetha Mills  
Commissioner

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**COMMISSIONER MILLS:** So moved.

**COMMISSIONER STERN:** Second.

**CHAIR AHERN:** There's a motion, and I think we heard a second from Peter; is that correct?

**COMMISSIONER STERN:** Correct.

**CHAIR AHERN:** All right, will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman? Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. Okay, the agenda has been approved. The approval of the minutes for the January 28, 2021 Commission Meeting, and the next item on the agenda is item five, Approval of the Minutes. Are there any corrections to the Minutes?

**COMMISSIONER STERN:** No corrections.

**CHAIR AHERN:** Hearing none, do I hear a motion to approve the minutes of the January 28<sup>th</sup>, 2021 Commission Meeting?

**COMMISSIONER STERN:** So move.

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

1                   **COMMISSIONER MILLS:** I'll second.

2                   **CHAIR AHERN:** We have a motion and a second.

3 Will the Secretary please call the roll?

4                   **MS. TOPETE:** Commissioner Kirtman? Commissioner

5 Stern?

6                   **COMMISSIONER STERN:** Yes.

7                   **MS. TOPETE:** Commissioner Mills?

8                   **COMMISSIONER MILLS:** Yes.

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

10                  **CHAIR AHERN:** Yes. All right, moving on to item

11 number six, is Informational Items. The agenda items are

12 for information. We'll move on to the Director's Comments

13 and turn it over to Director Alva Johnson.

14                  **DIRECTOR JOHNSON:** Thank you, Mr. Chairman. I'm

15 here to present Item 6a, our Sales Update for the current

16 period. Please direct your attention to the PowerPoint

17 presentation. We'll begin with the first slide. Total

18 Lottery sales through Saturday, March 13<sup>th</sup> are over \$5.77

19 billion. This is 20 percent higher over about \$950 million

20 above the sales goal and 22 percent higher than the Lottery

21 sales over the same time period last year, last fiscal year.

22 A key driving force behind this growth continues to be

23 Scratchers sales. As with past Commission meetings this

24 year, we are reporting Scratchers sales based on ticket

25 distribution to our retailers minus the returns from those

1 retailers. That's the same methodology used in our  
2 financials. Scratchers distribution sales through the first  
3 eight-and-half months of this fiscal year are over \$4.35  
4 billion, which is 18 percent ahead of goal and 22 percent  
5 over last fiscal year through mid-March. As in many other  
6 States, Scratchers continue to be a strong-selling product  
7 this fiscal year, outperforming expectations. During the  
8 pandemic, these games have been an affordable, available  
9 entertainment option. This is not unique to California, as  
10 states nationwide are also experiencing record Scratchers  
11 sales. On the other hand, thanks to January's large  
12 jackpots, the multi-state games have year-to-date sales  
13 close to \$700 million, far exceeding their fiscal year goals  
14 and last year's sales. Both Powerball and Mega Millions  
15 have sales this year over \$300 million. Mega Millions,  
16 which had the \$1 billion jackpot back in late January, has  
17 sales of \$388 million through mid-March. This is on par  
18 with the sales goal for the entire fiscal year. Sales are  
19 trending more than 50 percent ahead of last year, which only  
20 offered a jackpot as high as \$410 million over the course of  
21 that year. SuperLotto Plus has brought in close to \$170  
22 million so far this fiscal year, coming in three percent  
23 ahead of its goal. It is the only game that still has sales  
24 lower than last fiscal year. However, year-to-date sales  
25 are only \$2 million behind last year's pace, which is

1 largely due to lower jackpots. This time last year,  
2 SuperLotto Plus had a jackpot of \$72 million. So far this  
3 year, the jackpot has only reached \$28 million. While sales  
4 are lower so far, SuperLotto Plus still has created four new  
5 California millionaires this fiscal year. The Daily Games,  
6 which include Daily 3, Daily 4, Fantasy 5, and Daily Derby,  
7 continue to see strong sales this fiscal year. Combined,  
8 these games are running 14 percent above goal and 11 percent  
9 higher than last fiscal year's sales through this time. In  
10 February, Fantasy 5 saw its highest sales week since the  
11 game's inception in 1995. Last, but not least, is Hot Spot.  
12 Sales for this game through March 13<sup>th</sup> are close to \$250  
13 million. Fiscal year sales are continuing to pace 12  
14 percent above goal and six percent higher than last fiscal  
15 year. (Inaudible). I'm sorry?

16 **CHAIR AHERN:** Alva, can I interrupt just -- how  
17 many millionaires did SuperLotto Plus make in one year  
18 before you changed slides?

19 **DIRECTOR JOHNSON:** SuperLotto Plus brought in --  
20 created four new California millionaires this fiscal year.

21 **CHAIR AHERN:** How many?

22 **DIRECTOR JOHNSON:** Four.

23 **CHAIR AHERN:** Four, okay, thank you. All right.

24 **DIRECTOR JOHNSON:** Sure.

25 **CHAIR AHERN:** Thank you.

1                   **DIRECTOR JOHNSON:**     Sure.  So just the last point  
2 I want to mention on this slide is Hot Spot.  Sales for this  
3 Game through March 13<sup>th</sup> are close to \$250 million.  Fiscal  
4 year sales are continuing to pace 12 percent above goal and  
5 six percent higher than last fiscal year.  This key game  
6 also saw record sales in February, with almost \$7.5 million  
7 in just one week.  Next slide, please.

8                   We also assess how the Lottery is performing in  
9 terms of its most important measure, the contributions to  
10 public education.  These figures are based on the Lottery's  
11 Monthly Cumulative Financial Sales Report through February  
12 28<sup>th</sup>.  Over the first eight months of the fiscal year, our  
13 sales are running 17 percent ahead of its goal, while our  
14 contributions to education were about 20 percent ahead of  
15 our goal over that same time period.  Earlier this fiscal  
16 year, Scratchers sales were well above their sales goal,  
17 while the more profitable jackpot games were behind their  
18 sales goals.  This resulted in year-to-date profits being  
19 just modestly above their goal.  Now estimated contributions  
20 to education through the first eight months are over \$1.2  
21 million.  Next slide, please.

22                   In January's Commission Meeting, I shared this  
23 similar chart of weekly Scratchers consumer sales.  At the  
24 time, we were reporting record-breaking sales with weekly  
25 Scratchers sales surpassing \$120 million in September and

1 again in late December, but the best was yet to come as  
2 weekly Scratchers consumer sales surpassed \$120 million 15  
3 times so far this fiscal year. To put this into  
4 perspective, before July 2020, the prior record for the  
5 highest weekly Scratchers sales was \$118.6 million. This  
6 was set in October 1985 during the first week of Lottery  
7 sales. This prior record level, which held for almost 35  
8 years, is marked by the red line in the chart. As of today,  
9 the new record for highest Scratchers weekly sales was  
10 achieved during the first week of March, with \$141 million,  
11 marked by the orange bar in the chart. Total year-to-date  
12 Scratchers sales are now \$533 million above goal through the  
13 first eight-and-a-half months of this fiscal year. And we  
14 continue these strong sales with the introduction of a fan  
15 favorite, our Monopoly Scratchers, which just launched this  
16 past Monday. The next slide, please.

17           This year's success is primarily due to the  
18 highest Scratchers price points, specifically, the \$10, \$20,  
19 and \$30 games. These price points have seen double-digit  
20 growth over the last year. This chart shows weekly  
21 Scratchers consumer sales by price point since the beginning  
22 of last fiscal year. Sales for the \$10, \$20, and \$30 price  
23 points are in black, magenta, and blue in this chart. As an  
24 example, weekly sales of \$10, \$20, and \$30 games combined  
25 averaged about \$59 million last fiscal year, prior to the

1 pandemic. Since September 2020, these same price points are  
2 averaging just over \$80 million per week. Our most loyal  
3 Scratchers players gravitate to these price points and are  
4 fueling the strong sales. Some of the very popular games  
5 include \$400 Million Money Mania, which is a \$30 game,  
6 \$100X, which is a \$20 game, and our long-running top seller,  
7 \$10 Mystery Crossword. Next slide, please.

8           The January \$1 billion Mega Millions Jackpot not  
9 only brought huge sales for the drawings having the big  
10 jackpots, but also ushered in improved sales for Mega  
11 Millions -- Powerball and SuperLotto Plus also, during  
12 February and March. As previously reported, these games  
13 continued to sell below pre-pandemic levels throughout the  
14 summer and fall, even after our other products had  
15 rebounded. This chart shows how weekly sales in each of  
16 those three games compares to a week prior containing  
17 similar jackpots prior to the pandemic. For more than the  
18 first six months of this fiscal year, jackpot game sales  
19 averaged 11 percent lower than what was experienced prior to  
20 the pandemic. Yet, as shown in the blue-shaded area on the  
21 right-hand side of this chart, jackpot game sales are now  
22 averaging eight percent higher than pre-pandemic levels.  
23 This change in the sales trend could be promising for the  
24 future of these games as the State and the nation come out  
25 of the pandemic, and many players return to their normal

1 routines. As usual, we will continue to monitor this trend  
2 to see if it endures. In conclusion, our total sales and  
3 contributions to education look very strong and on pace to  
4 meet or exceed their respective fiscal-year goals of \$7.1  
5 billion and \$1.6 billion, respectively. That concludes my  
6 report.

7 **DIRECTOR JOHNSON:** All right, thank you very  
8 much. Looks very promising, Alva. You guys are doing a  
9 fantastic job getting those games out to the public. We  
10 have 6b, Procurement Program Overview.

11 **MS. BURKHART:** Thank you, Chair, Members of the  
12 Commission and Director Johnson. My name is Jennifer  
13 Burkhart, and I am the Business & Acquisition Services  
14 Branch Chief within the Operations Division here at the  
15 Lottery. I joined the Lottery in March of last year, but I  
16 come to the Lottery with over 27 years of State service in a  
17 variety of disciplines. As you know, the Lottery  
18 Procurement Program undergoes a variety of audits from both  
19 internal and external audit entities. Each audit has  
20 historically identified areas of weakness in the Procurement  
21 Program itself. Based on this, it was clear that the  
22 Lottery needed to address the four functions of the  
23 Procurement Program and create a plan. We also knew to make  
24 sure that the Procurement Program continues to allow the  
25 Lottery to maintain its unique flexible qualities but add

1 structure, accountability, and transparency, all key  
2 elements in building trust and increasing efficiency. By  
3 enhancing our Procurement activities, we can demonstrate  
4 that the Lottery is a good steward in furthering the Lottery  
5 mission to maximize supplemental funding for education. My  
6 presentation today will provide a window into the Lottery's  
7 Procurement Program and the goals and activities that we are  
8 putting in place to strengthen this program over the next 24  
9 months. Next slide, please.

10           The graphic provides a high-level overview of our  
11 Roadmap to Excellence. There are five major elements to the  
12 current Procurement Program, key activities in each range,  
13 from simply opening a dialogue to building community  
14 partnerships, and some can be accomplished in a matter of  
15 days, whereas others may take years before the full benefits  
16 will be realized. The overarching goals are to show that we  
17 can be a leader among State lotteries and maximize  
18 supplemental funding for education; to show that we can put  
19 structure in place and still maintain our flexibility; to  
20 show that we can and will hold ourselves and our contractors  
21 accountable; to show that we can be transparent and still  
22 maintain our security; and finally, to show that we can save  
23 money and still get top-quality goods and services. All  
24 these goals require us to conduct a complete assessment of  
25 the Procurement Program. In the last year, we have had a 95

1 percent turnover in the Procurement Office. That means the  
2 current team is looking at this program with fresh eyes.  
3 We're talking in vision, finding out what happened, how that  
4 worked. We're looking at previous audits to determine  
5 weaknesses and to create opportunities. The team is  
6 energized, excited and focused. The Procurement Management  
7 Team has almost 75 years of experience between us. The  
8 timing and circumstances could not be more perfect for what  
9 lies ahead of us. Next slide, please.

10           The first area I'm going to talk about is  
11 Maximizing Funding for Education. This goes to the heart of  
12 why we exist. Our mission needs to keep us grounded in all  
13 we do and every decision we make. It's important to focus  
14 on procuring only what is required to provide support for  
15 Lottery functions and only on activities that increase  
16 revenue. We want to demonstrate through our procurement  
17 decisions that we are good stewards of the Lottery's  
18 administrative budget allocation. Part of that is  
19 identifying areas that could be strengthened or eliminated  
20 and take steps toward the goal of reducing costs while  
21 increasing value to the Lottery. I constantly ask myself  
22 what type of gatekeeper we can be in Procurement to make  
23 sure we can do our part to help the Lottery get the biggest  
24 bang for our buck, and how do we hold our contractors  
25 accountable? One area that comes up time and time again is

1 that we need to review all of our contracts and procurements  
2 and ask ourselves if these services can actually be  
3 performed in-house. A really good recent example of that is  
4 the Lottery is taking over full responsibility for its  
5 physical security systems. Nobody would have thought that  
6 was possible a year ago. We have to regularly assess each  
7 service (inaudible) without bias and identify opportunities  
8 to continually enhance our mission. As noted in the news,  
9 Internet, and blogs, from time to time, there's an  
10 oversaturation of the market, and maybe there are items that  
11 are difficult to get, like Personal Protection Equipment.  
12 These are prime reasons to implement bulk purchasing. Bulk  
13 purchasing is not always the best option, but there are  
14 certain times when these types of purchases could save the  
15 Lottery a lot of money and should be considered. We're  
16 currently trying to identify where those opportunities lie  
17 for the Lottery. We have an opportunity to assess  
18 alternative approaches to determine what types of  
19 procurements work best for the Lottery. This includes  
20 partnering with other state lotteries, public and private  
21 entities to identify innovations that exist in the  
22 marketplace. For example, many State agencies have started  
23 executing contracts that require the contractor to prove  
24 that a cost saving has been achieved, and then a contractor  
25 is paid a percentage of that savings as payment for

1 services. Innovation creates competition, and it's  
2 important for us to look at those alternatives and find what  
3 works best. Next slide, please.

4           Structure: a strong Procurement Program requires  
5 structure. Structure provides stability and consistency.  
6 It ensures that staff understand what their roles are and  
7 what their roles allow them to do. Structure ensures that  
8 every person involved in the procurement process has a role  
9 that supports the process and will hold up under scrutiny.  
10 Structure is what tells customers, suppliers, auditors, and  
11 the public that the Procurement Program is solid, efficient,  
12 and supported by well-thought-out policies, processes, and  
13 decisions. We are also in the final stages of establishing  
14 service-level agreements with each Lottery division. These  
15 agreements will identify what role each division plays in  
16 the procurement process and will be a roadmap for future  
17 procurement engagements. We established processing time  
18 frames for all types of procurement, so it is clear how much  
19 time is needed at each phase of a procurement. We want to  
20 make sure that procurements, and especially amendments occur  
21 because they make sense and add value to the Lottery, not  
22 because we didn't have enough time to conduct a proper  
23 solicitation. We've implemented a new Procurement Policy,  
24 and as part of that policy, we created several processes and  
25 started the development and implementation of new standard

1 forms to address problem areas identified by the California  
2 State Auditor. The Lottery is entering the final phases of  
3 upgrading its Procurement system so that we can process  
4 procurements more efficiently and increase reporting  
5 capabilities that are important in revealing historical  
6 spending trends. Strengthening the Procurement Program  
7 infrastructure will result in changes to the Lottery  
8 regulations, which is why it's important for us to bring the  
9 Commission in on the ground floor of our efforts. The  
10 activities on the slide are just the start of adding  
11 structure to the Procurement Program. I want to be clear  
12 that structure does not mean rigid and inflexible.  
13 Structure means standardization and stability, so that  
14 everyone is doing things the same way. Next slide, please.

15           The next area is Accountability. Accountability  
16 means that we are taking responsibility for the roles we  
17 fill, the decisions we make, and the outcomes, both good and  
18 bad, those decisions have on the Lottery. It is extremely  
19 important that staff are trained to perform those functions  
20 associated with their roles and that only trained staff  
21 execute those functions. We are formally documenting who  
22 has signature authority and what is allowable under that  
23 authority. The fact that the Lottery enters into longer-  
24 term contracts means that staff may only work on something  
25 one time during their time at the Lottery. The development

1 of a robust training program and resource library is vital  
2 to ensure accountability. It is important to document  
3 lessons learned so that we continue to improve and  
4 strengthen our procurements and eliminate those actions and  
5 activities that didn't work well. The Lottery Procurement  
6 Program has been identified by the State Controller's Office  
7 as the highest area of risk for the Lottery. Measures to  
8 mitigate the risk includes the development of peer-review  
9 process within the Procurement Office; having Procurement  
10 staff and management conduct spot reviews of solicitations  
11 conducted by program areas; and having Procurement  
12 management conduct formatted annual reviews, utilizing  
13 checklists based on the audit tools utilized by internal and  
14 external audit entities. These reviews will help the  
15 Procurement Program address potential issues early and will  
16 show audit entities that we can self-correct, thereby  
17 reducing the overall risk associated with procurement and  
18 the need for continuous audits. Next slide, please.

19 Internal Transparency: it's extremely important to  
20 have as much transparency as possible in the procurement  
21 process. Procurement touches so many areas, both inside and  
22 outside of the Department. Lack of transparency can result  
23 in lack of understanding, suspicion, and mistrust in our  
24 Procurement Program. To combat that, we will update our  
25 Procurement manuals and desk procedures, so that Lottery

1 staff will have a resource they can refer to when questions  
2 arise. This information will be published on the Lottery's  
3 intranet so that it is easily accessible to staff. We will  
4 develop and publish Procurement Training geared towards the  
5 different roles an employee may have. This includes New  
6 Employee Training, an Annual Certification Training for  
7 things like CAL-Card cardholders and approvers and contract  
8 managers. We will develop Annual Procurement Plans so that  
9 we can plan workload, identify upcoming procurements so that  
10 we allow plenty of time to conduct solicitations, and  
11 consider the timing of Commission meetings when determining  
12 contract start dates required for new or amended  
13 procurements. It's important that we communicate early and  
14 often, taking enough time and paying attention to detail  
15 when administering procurements. Without proper time and  
16 focus, contract and solicitations can put the Lottery  
17 Program at risk, resulting in no contract award, or, if  
18 awarded, can result in substandard services. Next slide,  
19 please.

20 External Transparency: External transparency  
21 builds trust among those who wish to do business with the  
22 Lottery. A strong Supplier Outreach Program provides  
23 potential suppliers with information about what we buy, what  
24 services we need, how they can do business with us, and what  
25 solicitations we have on the horizon. What it effectuates

1 to increase supplier interest in our solicitation is to  
2 increase the disclosure of our evaluation criteria and  
3 solicitation documents. The evaluation criteria tell the  
4 supplier community what they need to do to win. It's  
5 important that criteria are clear, unambiguous, and free of  
6 unnecessary technical jargon. Each supplier puts up their  
7 own funding and resources to put together a bid response.  
8 It's our responsibility to show them that the Lottery has  
9 thoroughly thought through the business needs and how it  
10 will select a winner. This in turn demonstrates to the  
11 bidding community why it is worth their time, effort, and  
12 money to submit a bid, as well as how they can best support  
13 our mission to maximize funds for public schools. We need  
14 to build partnerships with community organizations that  
15 specialize in the type of good or service we wish to  
16 procure, that community and trade organizations know what is  
17 available in their communities, and they communicate often.  
18 Alerting these entities to upcoming solicitations can help  
19 to increase interest in our solicitation. Transparency  
20 builds trust, and trust results in increased responses from  
21 the supplier community, which leads to increased competition  
22 and increased value for the Lottery, ultimately bolstering  
23 our ability to generate important revenue for our  
24 beneficiary, California's education system. Next slide,  
25 please.

1           Best Value: Our current efforts are focused on the  
2 identification of what "best value" means at the individual  
3 procurement level, and even at that level, it can be  
4 difficult to identify what is most important. It's really  
5 easy to state what you want, but to be able to state that in  
6 a way that a contractor or supplier understands is much more  
7 difficult. We need to be clear in solicitations on how we  
8 plan to evaluate responses, including what is most important  
9 to the Lottery. This helps the contractor-supplier  
10 community determine where they want to focus their effort  
11 and ensure they have resources to fulfill the requested  
12 services. From a broader perspective, it's important that  
13 procurement activities are aligned with the Lottery's  
14 Strategic Plan. There's still a lot of work to be done in  
15 this area, but we are already making great strides in  
16 detailing this in solicitation. It's important to research  
17 industry standards and best practices so the Lottery can  
18 leverage the work and resources that went into establishing  
19 those standards and apply them to our procurement activities  
20 as necessary. Industry standards exist because they are  
21 used by multiple entities and have been deemed the best.  
22 Standards can change. They have usually been through enough  
23 testing that the industry can feel confident in best  
24 practices. To bolster our mission even more in supporting  
25 schools, we will use data to determine optimum purchasing

1 cycles to make sure that we receive the best value possible.  
2 For example, we know that certain products are cheaper at  
3 certain times of the year. When we analyze our procurement  
4 data and historical purchasing trends, we can time  
5 procurements so that we get the best price possible. This  
6 is an industry practice that is used worldwide to optimize  
7 purchasing dollars and is something that we can implement  
8 here at the Lottery. We are currently limited by the  
9 abilities or lack of abilities in our existing procurement  
10 system, but there are changes in the works that will make  
11 something like this more of a reality over the next couple  
12 of years. Next slide, please.

13 As you've heard through this presentation, we have  
14 developed a Roadmap to Excellence for our Procurement  
15 Program. It's going to take a lot of work, and it will  
16 require us to strengthen our partnerships with Lottery  
17 divisions and the supplier community at large. I think it's  
18 a challenge that once accomplished will continue to provide  
19 benefits to the Lottery for years to come. I'm happy to  
20 take any questions you might have.

21 **CHAIR AHERN:** Right. Do any of the Commissioners  
22 have any questions at this time?

23 **COMMISSIONER MILLS:** Chair Ahern, this is  
24 Commissioner Mills. I would like to make a comment.

25 **CHAIR AHERN:** Well, go right ahead.

1                   **COMMISSIONER MILLS:** Thanks. So, thanks, Jennifer,  
2 for the presentation. I just wanted to express my  
3 appreciation for you guys bringing this forward and shedding  
4 a bit more sunlight, not only with us as Commissioners but  
5 with the public on our procurement processes. This is,  
6 since my tenure on the Commission, this has been kind of the  
7 most important thing, I think, that I've been asked to do as  
8 a Commissioner is approve contracts and expenditures, and so  
9 it's really helpful for me to understand the processes that  
10 you guys are using, but also to really understand the sense  
11 of urgency around continuous improvement, and I loved your  
12 Roadmap to Excellence. I think that tells me that you're on  
13 a journey of continuous improvement, which I think is really  
14 important, but I do -- I very much appreciate the level of  
15 diligence, the priority that's been being put on this and  
16 the transparency that is being displayed here, so that we  
17 can all make sure that as Commissioners, we know what we're  
18 approving has been through a robust process, a well-  
19 controlled process, a transparent process, a well-trained  
20 process across the Lottery, but also so that the public can  
21 feel good about that as well as we ensure we're ultimately  
22 maximizing our contribution to education. So this is really  
23 important, and I appreciate allowing the time here in this  
24 Commission Meeting to have this conversation. Thank you.

25                   **MS. BURKHART:** Thank you.

1           **CHAIR AHERN:** All right, and Jennifer, I had just  
2 one question. I know you mentioned there's a better price  
3 point to buy certain things throughout the year, buying it  
4 at the lowest price, but are there some issues and problems  
5 going around the State requirements for procurement and the  
6 Lottery requirements for procurement and getting those  
7 things on a timely basis, or do we just have to make sure we  
8 plan well in advance?

9           **MS. BURKHART:** Excellent question. It's really  
10 about planning, and the Lottery does have a little more  
11 flexibility than other State departments, and so that does  
12 give us a little bit of an upper hand to move faster than  
13 other State departments sometimes, and so there are some  
14 benefits in how we run our Procurement Program here.

15           **CHAIR AHERN:** All right. Okay. Thank you. All  
16 right, very nice to hear that presentation. Very well done.  
17 Thank you, Jennifer.

18           **MS. BURKHART:** Thank you.

19           **CHAIR AHERN:** All right, Alva, we'll move on to  
20 8c. (Inaudible), yeah.

21           **DIRECTOR JOHNSON:** Thank you, Mr. Chairman. We  
22 have our Deputy Director of Business Planning and Research,  
23 Jim Hasegawa here to present.

24           **MR. HASEGAWA:** Good morning, Mr. Chairman,  
25 Director, Commissioners. I'm going to present some of the

1 highlights from the Optimal Prize Payout Study. This study  
2 was conducted by an independent consultant, Dr. Justin  
3 Adams, who is President and Chief Economist for Encina  
4 Advisors. Next slide.

5           Before I get to the study that was completed in  
6 2020, let me provide a little background. In 2009, the  
7 Lottery conducted a study. This was conducted prior to the  
8 California Lottery having the flexibility on prize payouts  
9 like we do today, and this study was designed to help  
10 demonstrate how higher prize payouts increase the Lottery's  
11 contributions to their beneficiary. So the 2009 study was  
12 commissioned to analyze the relationship between prize  
13 payout and sales and profits. The company that did the  
14 study model using ten years of Lottery industry data, and  
15 some of the key findings showed that, you know, not  
16 surprisingly, today, we know that states that had higher  
17 prize payouts not only had higher sales but greater  
18 contributions to their beneficiaries. This study also  
19 projected what would happen if California boosted its prize  
20 payouts, and as part of that, the report had an estimated  
21 optimal prize payout then of 62 percent being what would  
22 maximize contributions to public education. Next slide.

23           So in 2020, we commissioned a new study, and this  
24 was designed to update the analysis and determine what the  
25 current optimal prize payout rate would be. We conducted a

1 competitive procurement that resulted in Encina Advisors  
2 being awarded the contract to do this study. Dr. Justin  
3 Adams was a partner at Chang and Adams, who did conduct the  
4 prior analysis. And as you probably recall, this was one of  
5 the California State Auditor's recommendations to conduct  
6 another study. And since the 2009 study used ten years of  
7 data, you know, 2020 was the right time to have a new  
8 analysis done because we have a new data set. Next slide.

9           The 2020 slide used a modified version -- go the  
10 first bullet -- of the approach used in the 2009 study.  
11 There were some refinements, but they were used to  
12 strengthen the statistical modeling as well as explore a few  
13 new relationships, now that we have a larger data set.  
14 First, using 12 years of data from the 45 U.S. lottery  
15 jurisdictions, a model was built to estimate per capita  
16 sales. Next, the model was calibrated for California. In  
17 other words, the California-specific model that estimated  
18 the capital sales at different levels of prize payouts  
19 specifically in California was created. Third, after making  
20 assumptions for certain variables like per capita  
21 advertising spending and administrative spending, this  
22 report then calculated the Lottery's potential contributions  
23 to education at different prize payout level and thereby  
24 allowing us to find out the payout that maximizes  
25 contributions to education. Next bullet: The Lottery did

1 provide the data that Dr. Adams used, and we provided him  
2 the industry data, and we used La Fleur's Lottery World  
3 Publications with sales data for overall prize payout  
4 information and the advertising budgets by individual fiscal  
5 year, and as you can see, we used a period from Fiscal Year  
6 2007-8 all the way to Fiscal Year 2018-19, and that was the  
7 latest data that was available industry wide.

8           Moving on to the next slide, the next few slides  
9 are actually, as you can see, the look is a little  
10 different, and that's because they're from Encina Advisors,  
11 but I did add the title at the top. So put -- the model is  
12 able to accurately, quite accurately, predict per-capita  
13 sales using the variables in this model. In fact, the model  
14 can account for about 83 percent of the variation in per-  
15 capita sales, and the predictive factors include, as you see  
16 on the chart there, prize payout rate. So both the current  
17 year's actual, overall prize payout percentage, as well as  
18 the prior year's percentage of -- they were both  
19 statistically significant and in the model. Advertising  
20 spending: so the model saw a positive link between a  
21 lottery's per-capita advertising spending and its per-capita  
22 sales in that same year. Third factor was regional  
23 differences. Dr. Adams used the U.S. Census Bureau's nine  
24 divisions or regions, and what this model shows is that the  
25 region in which the state resides influences its per-capita

1 sales when even controlled for other factors like prize  
2 payout. States in the Mid-Atlantic Region, which include  
3 New Jersey, New York and Pennsylvania, the New England  
4 Region, and also the South-Atlantic Region, which includes  
5 jurisdictions like Delaware, the District of Columbia,  
6 Maryland, North and South Carolina, Georgia, Florida,  
7 Virginia, and West Virginia, those regions had a large  
8 impact on per-capita sales, meaning that if states in those  
9 regions had the same, say, prize payout and advertising as,  
10 say, we did, the states in those regions would have higher  
11 per-capita sales. There definitely is a regional impact in  
12 Lottery sales. And then finally, the state variable: so  
13 states that have video lottery terminals and also a  
14 California-specific indicator, those all positively  
15 influence per-capita sales, and that means that states that  
16 have VLTs have slightly higher per-capita sales of  
17 traditional lottery products, the sites that we sell, than  
18 would be predicted based on just the other variables like  
19 prize payout in advertising. And for California, it means  
20 that its per-capita sales are slightly higher than other  
21 states in the Pacific division than what would be expected,  
22 again, with the variables like prize payout in advertising.  
23 On the other hand, states with small populations had lower  
24 per-capita sales than what the prize payout in advertising  
25 in region would normally predict on their own. Next slide.

1           And so all of this builds to kind of -- I think  
2 one of the key findings that I think the Commission will be  
3 most interested in and that is understanding where the  
4 optimal prize payout lies, and that's what this slide does.  
5 In fact, I think the illustration that Encina Advisors did  
6 kind of helps to illustrate that very well. Again, the  
7 optimal prize payout rate is the prize payout percentage  
8 that would maximize our contributions to public education,  
9 and in this study, an optimal prize payout range was  
10 discovered, and that range goes from 65 percent to 67  
11 percent, and that is what will maximize the contributions to  
12 public education. Now this is higher than the 62 percent  
13 rate found in the 2009 study, and that's because we have a  
14 lot more, newer data. The industry has progressed with  
15 higher prize payouts with more higher price points than  
16 existed back in 2009. Now the one thing you might ask is,  
17 we talk about a prize payout range rather than a specific  
18 number, as in the prior study, and Dr. Adams feels that a  
19 range is more appropriate for a number of reasons, ranging  
20 from the fact that the contributions to education are  
21 somewhat similar under all of those percentages, from 65-67  
22 percent. And another reason is the prize payouts in the 65  
23 to 67 percent range, they do represent somewhat uncharted  
24 territory. Only 14 of the 45 jurisdictions had experienced  
25 overall prize payouts exceeding 65 percent in any of those

1 years. And another area deals with the fact that there is  
2 uncertainty with respect to the data that we had available.  
3 One example is, we're using actual prize payout, and that  
4 variable can be influenced by such random events as a big  
5 \$1.6 billion jackpot in a game like Mega Millions, which has  
6 a lower payout. And then finally, a range is more  
7 appropriate because, as I mentioned earlier, the model  
8 itself predicts about 83 percent of the variation in  
9 explaining the per-capita sales, meaning that it didn't  
10 predict 17 percent of the variation, and because of all of  
11 these factors, Dr. Adams feels a range is more appropriate.  
12 Next slide.

13 In the report's last section, he discusses the  
14 issue of proportionality and the CSA's finding in this area,  
15 and one quote I will start out with is, he said that, "While  
16 it's understandable that the California State Auditor would  
17 have concerns over maximizing contributions to education and  
18 desire a simple rule with which to evaluate these  
19 contributions, we, meaning Encina Advisors, strongly  
20 disagree with the auditor's conclusion and recommendations  
21 for a codified proportionality requirement. Setting such a  
22 standard would be unrealistic, and it would be unworkable  
23 for the Lottery to meet." And I think one of the things --  
24 oftentimes people say pictures are worth a thousand words,  
25 and I think this is a complicated and very mathematical

1 issue, and I think the figure that Encina Advisors provided  
2 is really helpful in illustrating it, and that's what's on  
3 the chart there. This figure shows very well how a  
4 proportionality requirement would be unrealistic. You know,  
5 based on the CSA's definition of net revenues,  
6 proportionality would require that contributions to  
7 education, which are in red, to grow at the same rate as  
8 total sales minus administrative expenditures. However,  
9 this can't happen because as we increase prize payout rates  
10 to reach that maximum optimum rate, prizes are going to  
11 consume a higher proportion of total sales, and  
12 contributions to education mathematically would consume a  
13 decreasing proportion. Now, of course, in actual dollars,  
14 the amount going to education through all of this does  
15 increase, however. And so Dr. Adams concludes that the  
16 proportionality requirement would prevent the Lottery from  
17 maximizing contributions to education by preventing it from  
18 increasing the prize payout rates to the optimum range of  
19 the 65 to 67 percent. Next slide.

20           So, one of the things I wanted to also mention now  
21 -- this of course is our slide, and what we did is we looked  
22 at the optimal prize payout range, and then we also looked  
23 at -- our auditor financial figures where available, and  
24 through Fiscal Year 2018-19, we had never exceeded or even  
25 approached or gotten into the range of 65 to 67 percent.

1 And although the audit of our last year's financials is not  
2 totally complete, the prize payout rate appears to be about  
3 66.5 percent, which is within the optimal prize payout  
4 range. And so you can see that we have never exceeded the  
5 prize payout range, and only one time it did fall into that  
6 range. So we do have the room to grow and increase our  
7 prize payout to maximize more dollars for education, and I  
8 believe that's the last slide, is this question. So I'm  
9 happy to entertain any questions or anything additional. I  
10 didn't necessarily include every last methodological detail,  
11 but I did want to concentrate more on the findings and the  
12 results and commentary from Dr. Adams' report.

13 **CHAIR AHERN:** Well, thank you very much for  
14 covering the proportionality portion of it. That's been  
15 very important to me and some of you. Outstanding job.  
16 Does any Commissioner have any questions for Jim?

17 **COMMISSIONER STERN:** I do. This is Commissioner  
18 Stern. Jim, thanks so much for the presentation and all the  
19 insights -- extremely valuable. But my question is around  
20 because there are so many data inputs and insights and  
21 valuable information that came out from the go-to-market  
22 perspective, do we learn anything about from a go-to-market  
23 or our sales spend and our marketing spend, and will that  
24 impact that at all, based on the findings that we have from  
25 this report? So doubt that the intent of this exercise, but

1 curious if this will carry over.

2 **MR. HASEGAWA:** Right, and it doesn't give a  
3 direction, again, because it wasn't the intent on, like, to  
4 try and determine the optimum level of a marketing spend.  
5 That would require a separate study. However, I think that  
6 this shows how the importance of marketing spend is. We do  
7 have, you know, media analytics and econometric modeling  
8 done for that specific purpose, and we use that with  
9 Horizon, but we have other models that can help us optimize  
10 the amount of marketing spend.

11 **COMMISSIONER STERN:** Thanks, really appreciate all  
12 the insights here.

13 **MR. HASEGAWA:** Uh-huh.

14 **COMMISSIONER MILLS:** Chair Ahern, I do have a  
15 couple of questions as well. This is Commissioner Mills.

16 **CHAIR AHERN:** Go ahead.

17 **COMMISSIONER MILLS:** Great, thank you. Jim, thanks  
18 for the presentation. I thought it was very informative and  
19 really (inaudible) and thorough. I loved the chart on the  
20 proportionality, and I'm wondering if our consultant -- it  
21 would be really helpful to see, like, a side-by-side chart,  
22 and if the consultant could run the model in a  
23 (inaudible) force proportionality, that you could see, you  
24 could clearly see the difference between what the  
25 contribution to education would be by maximizing prize

1 payouts versus what the contribution to education would be  
2 by forcing this proportionality calculation. So I don't  
3 know if that's possible, but it would be super-interesting  
4 to ask the question if our consultant was able to, you know,  
5 force the model to do that and to be able to see that  
6 analysis.

7 **MR. HASEGAWA:** Yeah, we can do that. Positive, in  
8 fact, that the way the chart shows essentially would mean  
9 that if we had to stick to a strict proportionality, we  
10 would have to maintain the current rate of prize payout. So  
11 that would be the function, so I believe that other factors  
12 might come into play such as marketing spend and other  
13 things --

14 **COMMISSIONER MILLS:** Uh-huh.

15 **MR. HASEGAWA:** -- but we would then essentially  
16 kind of more stabilize at the contribution levels we are  
17 currently at. We wouldn't (overlapping).

18 **COMMISSIONER MILLS:** It'd be either a flat line --  
19 my hunch is that if we saw it, it would either flat-line our  
20 contribution to education, or it would make it decrease, and  
21 being able, to, like, I mean, you said it, a picture's worth  
22 a thousand words, right? So being able to have that picture  
23 to show that would be really cool. So I'll just leave that  
24 with you.

25 **MR. HASEGAWA:** Okay. All right. Will do.

1                   **COMMISSIONER MILLS:** And then, I was wondering if  
2 you -- well, so two other questions. Wanted you to talk a  
3 little bit about are there plans to further socialize these  
4 findings with our friends and colleagues of course at the  
5 California State Audit Division and broadly with our friends  
6 and colleagues at the Capitol to help further educate and  
7 clarify this understanding we seem to have? So that was one  
8 question. And then the other question I had was, do we have  
9 any kind of policy around the right -- the appropriate  
10 timing for updating this study? I know you said it's been  
11 ten years since we did the last one, and that kind of felt  
12 like the right time, but I'm wondering if we should, or if  
13 we have codified a policy around periodically updating this  
14 study and then how that compares maybe to best practices  
15 with other lotteries? I mean, how often do states do these  
16 types of studies across the nation?

17                   **MR. HASEGAWA:** I'll take the second question  
18 first, and I'll let Director Johnson speak to the first one  
19 in terms of how we're going to communicate this to other  
20 external entities. In terms of the study and all, a couple  
21 of things: not all jurisdictions do this type of research,  
22 so there's not really a best practice on that. We do feel -  
23 - the report also talks a little bit about this notion of  
24 experimentation, that he recommends that we also, in  
25 addition to these types of formal studies, I think if we had

1 a, without getting too wonky with kind of a research  
2 explanation, essentially, if we expand the database, you  
3 know, in terms of having a lot more variation in our prize  
4 payouts, and to experiment with it a little bit and seeing  
5 the results, it would allow ultimately not only internal  
6 staff but a consultant to do a better job, even, of  
7 understanding, you know, where that optimum rate lies,  
8 because modeling can only look at behavior in the past and  
9 kind of extrapolate from it. Since nobody has done  
10 anything, like say, an 85 percent payout, it's hard for a  
11 model to estimate exactly what would happen at such an  
12 extreme level. And so he did recommend some  
13 experimentation, and that's something under discussion with  
14 the new organization to see what we want to do in that area.  
15 But I do think that, given that there's ten years of data,  
16 it does make sense probably somewhere around the area of,  
17 like, within five years, perhaps, of doing it again. I  
18 think the cost benefit, if you did it, like, every year, the  
19 results wouldn't change enough because we wouldn't have  
20 enough change in the data to make dramatic changes in the  
21 findings. So the other thing that would influence the years  
22 is not only this type of data, but what happens in the  
23 industry. If there are dramatic shifts -- like, a lot of  
24 states all of a sudden do dramatic shifts in their prize  
25 payouts, or different products and so forth, that would

1 necessitate a re-do of the study at a little faster clip.  
2 Does that answer your question?

3 **COMMISSIONER MILLS:** It does. Thank you, very  
4 helpful.

5 **DIRECTOR JOHNSON:** Thanks, Jim. You know, the  
6 period, the intervals when we should conduct this study, I  
7 think is an important question, and we will be taking a look  
8 at that. I'm aware that our State Legislature did introduce  
9 recently legislation, propose legislation to require the  
10 Lottery to do a study about every five years, and so we are  
11 monitoring that. We did actually provide a response to the  
12 California State Auditor in our one-year answer to the  
13 report that they issued last year on this question, and we  
14 explained the findings of this report and our analysis and  
15 interpretation of the proportionality question that the  
16 State Auditor raised, and without necessarily changing their  
17 findings, they indicated that perhaps the Lottery should ask  
18 the Legislature to change the law if the law is unclear,  
19 which we thought was interesting, given that the State  
20 Auditor reports to the Joint Legislative Audit Committee.  
21 But nevertheless, we will certainly look for opportunities  
22 to provide copies of this report and explain it to  
23 legislative leaders to help provide a better understanding  
24 of this issue. We think it's important that the public  
25 understand how the Lottery works because, you know, it's

1 true that not all of these details, not all of these  
2 mathematical findings or, you know, calculations are  
3 intuitive, so we want to make sure we, in the efforts of  
4 transparency and accountability, show people how we do what  
5 we do and make sure that this is clear so that it reduces  
6 the amount of confusion going forward.

7 **COMMISSIONER MILLS:** Thank you, Director Johnson.

8 **CHAIR AHERN:** Okay, thanks again, Jim, but don't  
9 go away. We'll get to you real quickly. Item number seven  
10 is the Consent Calendar. There are no items on the Consent  
11 Calendar, so we'll proceed directly to Item number eight,  
12 which is Action Items. We'll start with 8a, Communications  
13 Effectiveness Tracking Study Services Contract Award. On to  
14 you, Jim.

15 **MR. HASEGAWA:** All right. If we could only pull  
16 up that information right now. Let's take down one and  
17 bring up the other. Okay. So for Item 8a, Communications  
18 Effectiveness Tracking Study Services Contract Award, I'll  
19 be presenting the staff recommendation for this award, but  
20 first let me tell you a little bit about the research study  
21 itself. So it not only fulfills a few mandates that are in  
22 the Lottery Act, but it also allows us to, you know, keep a  
23 pulse on the attitude and behaviors of California adults.  
24 The Lottery Act does require us to analyze the effectiveness  
25 of our advertising and marketing communication efforts and

1 through data collected in this study, we can measure changes  
2 in metrics, such as game awareness, advertising awareness,  
3 consumer attitudes about specific games in the Lottery  
4 overall, and behaviors, such as buying a ticket. So we use  
5 that as one of the ways we view, analyze the effectiveness  
6 as part of our communications efforts. I did also mention  
7 there's an econometric mixed modeling and so forth in other  
8 ways, and we also do that. As another example, we are  
9 mandated to have an independent firm measure the  
10 demographics of Lottery players, and that's stated in the  
11 Lottery Act, and so we use the information collected in the  
12 tracking study to compare Lottery players with the overall  
13 California adult population, and what we've found is that  
14 Lottery players mirror the demographics of California adults  
15 on such things as income and race, ethnicity. And even  
16 where there are some statistically significant differences,  
17 they're fairly small, such as with gender. Men comprise  
18 about 53 percent of Lottery players, and as you are aware,  
19 obviously, men are about 50-50 with women in the general  
20 population. To ensure the survey has a sample that is most  
21 accurate and representative of the California adult  
22 population, I wanted to point out that the interviews are  
23 administered both in English and Spanish, and they're  
24 collected through two different methods -- online, as well  
25 as a much smaller percentage collected by a telephone. And

1 an independent market research firm has been conducting this  
2 study for more than 30 years, and by doing interviews every  
3 week and tabulating this data monthly, we have a wealth of  
4 information that helps us assess the past, but just as  
5 importantly, it's also used as the Lottery develops its  
6 business plans and marketing plans for each upcoming year.  
7 The current contract was awarded in 2016 after a competitive  
8 procurement and will now expire in August of 2021. So for  
9 this new procurement, an RFP was released on December 9<sup>th</sup>,  
10 and the Lottery received six proposals by the deadline of  
11 January 29. For the first phase of the evaluation, all six  
12 proposers passed the mandatory submittals review. In the  
13 second phase, proposals were evaluated on four criteria,  
14 using a point system of scoring. The four criteria were  
15 first, research design, survey strategies, and sample  
16 management, and that was the most important factor and  
17 therefore had the most potential points available. Second  
18 was project management and the deliverable that it would  
19 provide to us. That was the next most important factor,  
20 followed by the qualifications of key personnel that will be  
21 assigned to the project, and finally, corporate  
22 qualification. All four of these factors combined to have a  
23 maximum score of 160 points. The proposal from Alter Agents  
24 received the most points of any of the six bidders. A  
25 proposal needed to score at least 80 in order to advance to

1 the final round where the pricing was evaluated, and three  
2 of the six proposals had scores above 80 and advanced to the  
3 next round. In the cost proposal, a maximum of 40 points  
4 could be awarded, and a formula based on how the bidder's  
5 costs compared to the average costs of all the qualified  
6 bidders was used to award the points. In this section, the  
7 proposal from Alter Agents offered the lowest costs and  
8 received the most points in this section. Just as an aside,  
9 the second-lowest bidder's costs were about 45 percent  
10 higher than the costs provided by Alter Agents in their  
11 proposal. So when you combine the rated criteria evaluation  
12 and their scores and the cost evaluation and their scores,  
13 Alter Agents, not surprisingly now, received the most points  
14 throughout. They had the most points in both of those  
15 individual sections, and they were announced as the apparent  
16 successful bidder on February 19<sup>th</sup>. There were no protests  
17 filed. The proposal from Alter Agents we feel offers the  
18 best value for the Lottery. Their proposed methodology was  
19 very strong, and they really demonstrated a really deep  
20 understanding of our needs for a quality and representative  
21 sample of California adults, while at the same time offering  
22 the lowest costs. And as a result, staff is recommending  
23 that the Commission award the contract for the  
24 Communications Effectiveness Tracking Study to Alter Agents.  
25 The term of this contract is for three years, with an

1 effective starting date of May 1<sup>st</sup> and a total contract  
2 expenditure authority of \$1,025,000. The contract will also  
3 have options to extend for up to two additional one-year  
4 periods, and I'd be happy to answer any questions at this  
5 time.

6 **CHAIR AHERN:** Okay, do any Commissioners have any  
7 questions or comments on Action Item 8a?

8 **COMMISSIONER MILLS:** Chair Ahern, this is  
9 Commissioner Mills. I do have a question for Jim.

10 **CHAIR AHERN:** Go right ahead.

11 **COMMISSIONER MILLS:** Thanks. Thanks, Jim, for the  
12 presentation. Again, I just want to express my appreciation  
13 for the thoroughness around the presentation and the  
14 transparency around the process. It sounded like a really  
15 terrific, robust process that you guys went through. I had  
16 a question around this information that we get from these  
17 studies seems to be very important in our decision-making  
18 and both our kind of short-term and long-term planning, and  
19 I wondered if you could talk a little bit about, like, how  
20 this information is socialized, you know, with the  
21 Commission, but how do we get access to those, to this  
22 information, and how is it shared with us to inform your  
23 decision-making?

24 **MR. HASEGAWA:** Yeah, it does represent specific  
25 studies or some -- this because it has so much data, it's

1 used in a lot of the decisions, and I want to present that.  
2 For me, when I present, like, a strategic plan and a  
3 business plan, I'm citing a lot of data from there. I might  
4 not say, like, the tracking study said this, but playership  
5 is an important measure, right, and we talk about playership  
6 of Lottery games; specifically, which games have higher  
7 levels of playership, which games have lower, and the  
8 changes over time, and we will discuss that, and that leads  
9 to our decision. So when I talk about the business plan,  
10 that's one area that I do that. I think also in terms of a  
11 lot of the marketing decisions that are made, are primarily  
12 used with a lot of tracking study data. We have, from this  
13 information, we also have things like player segments come  
14 about in terms of our frequent players, and sometimes you've  
15 heard us talk about core players versus casual players and  
16 all, and the data -- because the incidence of those  
17 playership levels, the core players and the casual players,  
18 as well as who they are and how they changed over time,  
19 that's all used in some of the decisions we when we talk  
20 about core players and casual players and marketing  
21 decisions in that respect.

22 **COMMISSIONER MILLS:** Excellent, thank you.

23 **CHAIR AHERN:** All right, any other questions?

24 All right, does any member of the public want to address the  
25 Commission at this time regarding Action Item 8a? Hearing

1 none, do I hear a motion to approve Action Item 8a,  
2 Communication Effectiveness Tracking Study Services Contract  
3 Award?

4 **COMMISSIONER MILLS:** So moved.

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

6 **COMMISSIONER STERN:** Second.

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

9 **MS. TOPETE:** Commissioner Kirtman?

10 **COMMISSIONER KIRTMAN:** Yes.

11 **MS. TOPETE:** Commissioner Stern?

12 **COMMISSIONER STERN:** Yes.

13 **MS. TOPETE:** Commissioner Mills?

14 **COMMISSIONER MILLS:** Yes.

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

16 **CHAIR AHERN:** Yes. All righty, Jim, thank you  
17 very much. Now we'll move on to Jennifer Chan. We'll go  
18 over Action Item 8b, Addition of Funds to the Epicor 10  
19 Financial System Contract.

20 **MS. CHAN:** Thank you. Good morning, Sheriff and  
21 Commissioners.

22 **CHAIR AHERN:** Good morning.

23 **MS. CHAN:** Good morning. Item 8b is a request to  
24 add funds to the Epicor 10 Financial System Contract. In  
25 December of 2018, the Lottery entered into a contract with

1 Epicor Software Corporation for the implementation of the  
2 E10 Financial System and supporting applications also known  
3 as Epicor 10 Project. This project is currently underway;  
4 however, the Project Team has identified the need to push a  
5 project go-live date from May of 2021 to September of 2021.  
6 As a result, this is an additional \$630,000 that is being  
7 requested to support the project schedule extension and to  
8 add another key resource onto the project consistent with  
9 the implementation workload. This is a roughly four-month  
10 delay in the go-live date, and the addition of a consultant  
11 resource will result in a total cost to the team of \$4.6  
12 million included in the Epicor contract. The Project Team  
13 has worked diligently to keep the project on schedule, and  
14 as part of the actual implementation of the project, they  
15 have been conducting business process transformation in  
16 making business process improvements to increase efficiency  
17 and streamline its staff work within the new system. As a  
18 result of this due diligence, it was identified that more  
19 time is needed to complete the design and testing of those  
20 Lottery business processes, complete application of process  
21 design work, solidify end-user procedures and perform  
22 process walk-throughs in the E10 test system. This activity  
23 in particular requires staff across multiple divisions who  
24 are redesigning those joint processes and procedures. This  
25 Epicor 10 Project is a large-scale, complex project that

1 involves multiple systems and integrations, unique business  
2 processes, and an estimated chart of account and many users.  
3 Since the inception of the project, this risk of not  
4 completing a project on time due to those complexities has  
5 been identified, and, for example, although modifying the  
6 chart of accounts was not in the original scope of the  
7 project, doing so offers clear benefits to the Lottery, and  
8 it was advised by a consultant for the E10 upgrade, offered  
9 the best transitional opportunity to change a chart of  
10 accounts versus at a later time. That workload in  
11 particular with the chart of accounts has been a complex  
12 undertaking, and the reason for that is the Lottery's  
13 current coding system has been in (inaudible) for over 20  
14 years. Therefore, as the project progressed, it was  
15 identified that more time was needed to conduct a more  
16 thorough analysis and testing of the new coding structure  
17 and sample transactions. Adjusting these project milestones  
18 and the go-live date to September 2021 is the best way of  
19 ensuring that robust system testing and user training  
20 occurs, thereby mitigating the risk in the transition to  
21 this new financial system. The other factor which has  
22 impacted the delay as well has been the simultaneous upgrade  
23 of the Lottery's core gaming system; that is our Aurora  
24 Navigator Project, and that is set to go live on May 2<sup>nd</sup>. To  
25 have two key mission-critical systems such as Epicor 10 and

1 Aurora Navigator go live in parallel would be a very  
2 significant risk to the Lottery, as the same program and  
3 technical resources are working on both projects  
4 simultaneously. To ensure the September go-live day is not  
5 missed, as I mentioned, there's an additional consultant  
6 resource being added to mitigate that risk. That resource  
7 will assist with the implementation workload and also help  
8 address the single-consultant resource risk. This is a  
9 request to increase contract dollars only. The term of the  
10 contract runs through December 2023, and approval of the  
11 funds in the contract will increase the total contract  
12 amount to \$5,230,000, and the recommendation at this point  
13 is to approve the additional funds, and I'm happy to answer  
14 any questions you may have.

15 **CHAIR AHERN:** Okay, thank you very much. Does  
16 any member of the Commission have questions or comments  
17 regarding Action Item 8b?

18 **COMMISSIONER STERN:** I do have a quick question.  
19 This is Commissioner Stern. In the agenda item, there's the  
20 term "proof of concepts," and just being in industry, proof  
21 of concept a lot of times means testing the viability of a  
22 solution, and I assume this is truly just an extension of  
23 the current implementation -- we're confident in the  
24 solution, and we know it's going to be viable; it's just the  
25 integration's making sure all applications work together; is

1 that a fair assessment?

2 **MS. CHAN:** That is correct.

3 **COMMISSIONER STERN:** Thank you.

4 **COMMISSIONER MILLS:** And Chair Ahern, this is  
5 Commissioner Mills. I did have a comment as well.

6 **CHAIR AHERN:** Go right ahead.

7 **COMMISSIONER MILLS:** Great, thanks. Thanks,  
8 Jennifer, for the presentation. I just want to say, commend  
9 you guys on this work. My organization, we just went  
10 through a back-office implementation, combining a bunch of  
11 back-office programs into one, and it's not fun. It's a lot  
12 of work, and I know it's, you know, disappointing not to  
13 meet your deadline, but I do think it's not unusual for  
14 these types of major kind of back-office infrastructure  
15 technology changes; it's not an unusual thing to have  
16 happen, and I really commend you guys on taking the time you  
17 need to really evaluate the business processes that go along  
18 with the technologies. If you just let this fancy new  
19 technology on old, bad processes, you're not going to get  
20 your return on investment, and so I'm really happy to hear  
21 that this is on really taking the time to look at your back-  
22 office processes and get them aligned with the new  
23 technology so that the investment that we're making, which  
24 is significant, both in dollar resources and in personnel  
25 resources, we can really maximize that investment for the

1 long term. So I wish you guys the best as you continue on  
2 this journey, and please pass along our appreciation to your  
3 staff as well. It sounds like this has been a very  
4 collaborative project across the organization, and no doubt  
5 many, many people are involved in this initiative in  
6 addition to their regular, full-time jobs, so please pass  
7 along our appreciation to them as well.

8 **MS. CHAN:** Thank you. I will.

9 **CHAIR AHERN:** Okay. Does any member of the  
10 public want to address the Commission at this time regarding  
11 the Action Item 8b? Hearing none, do I hear a motion to  
12 approve Action Item 8b, Addition of Funds to the Epicor 10  
13 Financial System Contract?

14 **COMMISSIONER STERN:** So move.

15 **CHAIR AHERN:** I have a motion, and is there a  
16 second?

17 **COMMISSIONER KIRTMAN:** Second.

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

20 **MS. TOPETE:** Commissioner Kirtman?

21 **COMMISSIONER KIRTMAN:** Yes.

22 **MS. TOPETE:** Commissioner Stern?

23 **COMMISSIONER STERN:** Yes.

24 **MS. TOPETE:** Commissioner Mills?

25 **COMMISSIONER MILLS:** Yes.

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

2                   **CHAIR AHERN:**     Yes. All right. The motion  
3 passes. Thank you very much. We'll go on to Action Item 8c  
4 with Sharon Allen for Addition of Funds to Pollard Banknote  
5 Limited Instant Ticket Printing Contract.

6                   **MS. ALLEN:**        Good morning, Chairman and  
7 Commissioners. I am here for Item 8c, the Addition of Funds  
8 to Pollard Banknote Instant Ticket Printing Contract. The  
9 Lottery currently contracts with Pollard Banknote, Limited,  
10 or Pollard, as a secondary vendor for Scratchers production.  
11 Today we are requesting an amendment to increase the  
12 expenditure authority for the remainder of the contract term  
13 to allow for continued printing of Scratchers tickets.  
14 Pollard is one of the Lottery's three scratch and printing  
15 vendors. The contract was awarded in 2013 with an initial  
16 term ending November of 2019. In 2019 the Commission  
17 exercised the first option to extend the contract by a term  
18 of three years through November of 2022 and added \$15  
19 million to the contract expenditure, bringing the maximum  
20 contract expenditure to \$65 million. Pollard typically has  
21 produced approximately 12 percent of the Lottery's new games  
22 annually. In Fiscal Year 2018-19, it produced approximately  
23 13 percent of new games and accounted for approximately 18  
24 percent of total sales. However, in Fiscal Year 2019-20,  
25 its games accounted for approximately 32 percent of total

1 sales. This growth is due mainly to the immense success of  
2 its Crossword games, which has expanded to include a \$20  
3 game. In most weeks, these games are not only the top  
4 seller in their respective categories, they are also the  
5 most profitable. In 2020, the Lottery also engaged Pollard  
6 for a new product launch for PAC-MAN Scratchers, which had  
7 very strong sales overall, including setting several all-  
8 time weekly Scratchers sales records. Additionally, during  
9 the pandemic, the Lottery has focused on ensuring  
10 distribution of its highest-selling games, which prioritize  
11 certain Pollard games. This has resulted in approximately  
12 double the annual printing and licensing costs than were  
13 originally projected. Based on the combination of new  
14 products, maintenance of its top-selling games, and  
15 increased player demand, the Lottery will exhaust the  
16 current contract expenditure authority earlier than  
17 originally projected. Based on current estimates,  
18 approximately \$5 million of funding is available for the  
19 remainder of the term. Staff created a revised projection,  
20 estimating printing costs and expenditure requirements using  
21 the accelerated rate of change over the past two years, as  
22 well as projecting for future needs over the remainder of  
23 the contract. Lottery staff estimates that an additional  
24 \$40 million will be required to allow the Lottery to have  
25 sufficient funding until the current term ends. This amount

1 will support the increase in the number of Pollard  
2 scratchers that the Lottery has launched, respond to the  
3 greater consumer demand at its higher price-point ticket,  
4 and allow the ability to launch additional popular licensed  
5 properties to grow playership across the Scratchers product  
6 line. Staff recommends that the Commission approve an  
7 increase in expenditure authority for Pollard's current  
8 Instant Ticket Printing Contract. The proposed increase  
9 will add \$40 million to the contract for a maximum  
10 expenditure amount of \$105 million. And with that, I'd be  
11 happy to answer any questions.

12 **CHAIR AHERN:** All right, thank you, Sharon. Do  
13 any of the Commissioners have questions or comments on  
14 Action Item 8c?

15 **COMMISSIONER MILLS:** Chair Ahern, I do have one  
16 question for Sharon.

17 **CHAIR AHERN:** Go ahead.

18 **COMMISSIONER MILLS:** Hi, Sharon. I was wondering  
19 if you could -- does the pricing structure change at all  
20 with this additional funding, and are we confident that  
21 we're continuing to get best price through this addition?

22 **MS. ALLEN:** Within the contract, there are  
23 price breaks for increased volume that are already there,  
24 and we will continue to pursue additional price breaks as  
25 our volume thresholds get met so we can maximize the volume.

1 We had it built in already, and we'll pursue additional  
2 efficiencies where possible.

3 **COMMISSIONER MILLS:** Great, thank you.

4 **CHAIR AHERN:** Are there any other questions from  
5 the Commissioners? Hearing none, does any member of the  
6 public want to address the Commission at this time regarding  
7 Action Item 8c? Hearing none, do I hear a motion to approve  
8 Action Item 8c, Addition of Funds to Pollard Banknote  
9 Limited Instant Ticket Printing Contract?

10 **COMMISSIONER MILLS:** So move.

11 **CHAIR AHERN:** Thank you so very much for that. A  
12 pause. Is there a second?

13 **COMMISSIONER STERN:** Second.

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

16 **MS. TOPETE:** Commissioner Kirtman?

17 **COMMISSIONER KIRTMAN:** Yes.

18 **MS. TOPETE:** Commissioner Stern?

19 **COMMISSIONER STERN:** Yes.

20 **MS. TOPETE:** Commissioner Mills?

21 **COMMISSIONER MILLS:** Yes.

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

23 **CHAIR AHERN:** Yes. All right, thank you very  
24 much, Sharon.

25 **MS. ALLEN:** Thank you.

1                   **CHAIR AHERN:**     Don't go away.  You're still on  
2 camera; we're still ZOOM-ZOOM on Teams.  We'll go to Action  
3 Item 8d, Extension and Addition of Funds to the Alcone  
4 Marketing Group Contract.

5                   **MS. ALLEN:**     All right.  Thank you.  The Lottery  
6 contracts with Alcone Marketing Group for retail marketing  
7 and promotion services.  This contract is expiring on August  
8 31<sup>st</sup>, 2021, and the three one-year contract extension options  
9 have been exhausted.  Under the terms of the contract, an  
10 emergency nine-month extension is available.  Today we are  
11 requesting this extension and add of funds to this contract  
12 while a comprehensive RFP evaluation process may be  
13 conducted.  The Lottery's Marketing Department has begun the  
14 RFP process; however, there have been interruptions in the  
15 proceedings due to the large turnover of vital procurement  
16 staff and the restructuring of the Procurement Program,  
17 which Jennifer presented earlier in the meeting.  This  
18 contract plays an integral part of the Lottery's overall  
19 marketing plan as this agency strategically develops retail  
20 marketing and promotional programs that elevate the brand,  
21 create awareness, and motivate purchase.  Specifically,  
22 Alcone is responsible for the development and design of the  
23 Lottery's point-of-sale materials and product displays at  
24 over 23,000 retailers; retailer communication; website  
25 content services; and promotional programs reaching

1 consumers throughout the State. Over the life of the  
2 contract, and specifically within the last term, Alcone has  
3 proven to be an effective agency partner and has been  
4 particularly responsive and adaptive to the changing  
5 conditions during the pandemic. The Lottery plans to issue  
6 the solicitation in the next few months; however, due to the  
7 complexity and critical nature of this procurement, the RFP  
8 process will take time to complete and considerable staff  
9 resources are required. This nine-month emergency contract  
10 extension will enable the Lottery to continue essential  
11 marketing efforts without interruption and provide ample  
12 time for a thorough RFP solicitation, contract award  
13 process, and transitioning of the new contract.  
14 Approximately \$6.6 million will be remaining on the  
15 expenditure authority through the end of the current term.  
16 Based on anticipated marketing needs, an additional \$5.5  
17 million is requested to fund this extension. This will  
18 allow the Lottery to continue core retail marketing  
19 functions, servicing our growing retailer network, as well  
20 as promotional activities supporting new games, expanding  
21 playership, and communicating key brand messages. Staff  
22 recommends that the Commission approve an emergency nine-  
23 month contract extension with Alcone Marketing Group for the  
24 period of September 1<sup>st</sup>, 2021 through May 31<sup>st</sup>, 2022, with an  
25 addition of \$5.5 million in funding, bringing the maximum

1 authorized contract expenditure to \$72.8 million, and I'd be  
2 happy to answer any questions on this one.

3 **CHAIR AHERN:** All right, thank you again, Sharon.  
4 We'll go to the Commissioners. Do any Commissioners have  
5 any questions or comments regarding 8d?

6 **COMMISSIONER MILLS:** Hi, Chair Ahern. I do have a  
7 question for Sharon on this, and I'm wondering, Sharon, if  
8 you could answer the similar question to the last one about  
9 the pricing structures through this the extension, and are  
10 there opportunities to -- do the pricing structures change  
11 at all through the extension, and how do we ensure we're  
12 getting kind of the best value, best pricing?

13 **MS. ALLEN:** This contract is a fee-based  
14 contract based on a staff plan, and annually, we review our  
15 staff plan against our deliverables and expectations and  
16 needs to make sure that we have the appropriate staffing  
17 resources at the agency to support the activities, and we  
18 will make adjustments accordingly. So if our activities  
19 decrease or increase, then we adjust to make sure that we're  
20 staffed appropriately to meet the needs, as well as any  
21 costs that are expended through them -- production for  
22 example -- ensure that they follow the Lottery Act to triple  
23 bid where required, and all of that is billed to the Lottery  
24 according to the contract terms, and we'll continue that  
25 during the extension.

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**COMMISSIONER MILLS:** Great, thank you.

**CHAIR AHERN:** All right, are there any other questions? All right, keeping with the formalities, does any member of the public want to address the Commission at this time regarding Action Item 8d? Hearing none, do I hear a motion to approve Action Item 8d, Extension and Addition of Funds to the Alcone Marketing Group Contract?

**COMMISSIONER MILLS:** So moved.

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

**COMMISSIONER KIRTMAN:** Second.

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

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right, another success. Thank you, Sharon.

**MS. ALLEN:** Great. Thank you, Chairman and Commissioners.

**CHAIR AHERN:** Very well done. Okay. Item number

1 nine is General Discussion. Do any of the Commissioners  
2 have anything they'd like to discuss and bring up at this  
3 time? All right, we have tentatively scheduled Commission  
4 Meetings on May 27<sup>th</sup> and June 24<sup>th</sup>, 2021. Those meetings are  
5 scheduled. If there are any issues with those, please bring  
6 it to the attention of Director Johnson. Item number 11, I  
7 haven't been notified that there's any public discussion,  
8 but we'll ask. Is there anyone in the public who wants to  
9 address the Commission at this time? We have none. Alva,  
10 we'll turn it over to you. Any final comments?

11 **DIRECTOR JOHNSON:** I just want to give thanks  
12 again to the Commissioners for your time and support today  
13 and want to recognize our hardworking staff. They've  
14 enabled the Lottery to set sales records, and we've been  
15 able to do all this during the course of these very trying  
16 times, being very successful and keeping our folks safe, and  
17 also want to thank our partners, especially our retail  
18 partners, for their contributions to the Lottery's success  
19 in support of public education. Thank you.

20 **DIRECTOR JOHNSON:** Okay. With that, we'll be  
21 adjourned. Thank you all very much for your attendance and  
22 thank Lottery staff for your great work. All right, great  
23 to see you, almost, on Teams, ZOOM-ZOOM-ZOOM, until the next  
24 video.

25 **COMMISSIONER MILLS:** Thanks, everyone.

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**COMMISSIONER STERN:** See you guys.

**COMMISSIONER MILLS:** Bye.

**FEMALE:** Thank you.

(End of Recording)

**(MEETING ADJOURNED)**

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