

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – January 28, 2021

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. The meeting was held via Microsoft Teams and teleconference.

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

Commissioner Peter Stern

Commissioner Nathaniel Kirtman

Commissioner Keetha Mills

California State Lottery staff and presenters:

Alva V. Johnson, Director

Fernando Aceves, Chief Counsel

Jim Hasegawa, Deputy Director of Business Planning

Tyler Cabral, Manager of Financial Analysis and Risk Management

James Shannon, Acting Deputy Director of Internal Audits

Vincent Espinosa, Acting Deputy Director of Information Technology Services

Sharon Allen, Deputy Director of Sales and Marketing

Tiffany Donohue, Deputy Director of Operations

Elisa Topete, Assistant to the Commission

4. **Consider Approval of the Agenda**

Chairman Ahern asked if any of the Commissioners wanted to make changes to the January 28, 2021 proposed agenda. Commissioner Nathaniel Kirtman made the motion to approve the agenda and was seconded by Commissioner Peter Stern. The agenda passed unanimously.

5. **Approval of the Minutes**

Chairman Ahern asked if there were any additions or corrections to the November 19, 2020, minutes. Commissioner Kirtman made the motion to approve the minutes for the November 19, 2020, Commission Meeting and was seconded by Commissioner Keetha Mills. The minutes passed unanimously.

6. Informational Items

a. Director's Comments

Director Alva Johnson provided estimates of Lottery sales through January 23, 2021. Sales are over \$4.58 billion which represents a 22% increase in Lottery sales over the same time period last year. Total Scratchers[®] sales based on ticket distribution are now over \$3.4 billion. The week ending January 2nd set a record high for weekly Scratchers sales with over \$132 million. Multi-State games also have sales higher than goal with total year-to-date sales coming in at \$612 million for Mega Millions[®] and Powerball[®] combined. Sales from the past several weeks have moved total year-to-date sales for the two multi-state games past last fiscal year's sales by more than 50%. SuperLotto Plus[®] has brought in \$134 million for this fiscal year; coming in at \$1.3 million above its goal.

The Daily Games, which include Daily 3, Daily 4, Fantasy 5, and Daily Derby[®], continue to see strong sales this fiscal year. Combined, these games are 10% above goal and 6% higher than last fiscal year's sales through this time. Hot Spot[®] sales through January 23rd are just below \$200 million. Fiscal year sales are 11% above goal and 6% higher than last fiscal year.

When jackpots started rolling between early September through January 23rd, the estimated contributions to education generated from the two multi-state games, total \$197 million. Recent press releases from the Lottery's Public Affairs and Communications Unit over this time period reminded players to play it safe by only purchasing tickets during essential shopping trips and following all public health guidelines. These efforts and others by Lottery staff have encouraged responsible and safe play of the Lottery products. Both Scratchers and Jackpot Games go into the second half of the fiscal year with strong sales with the Lottery on track to bring in more funds for education by the end of this year than in fiscal year 2019-20.

Chairman Ahern stated he was worried that because of the pandemic, the Lottery would not be able to keep up with previous sales goals. Director Johnson commended staff for their great work in fulfilling the Lottery's mission.

b. Review of Fiscal Year 2019-20 Sales

Deputy Director of Business Planning, Jim Hasegawa, presented a review in sales for Fiscal Year 2019-20. The last 3½ months of FY 2019-20 saw the emergence of the COVID-19 pandemic and the government response in California to combat the spread of the virus. Although many retail establishments that sell Lottery tickets were deemed essential such as supermarkets, grocery stores, gas stations and drug stores, consumer shopping patterns and Lottery operations were impacted. An analysis to determine the pandemic's impact on Lottery sales and contributions to public education was conducted.

Pandemic-related impacts reduced Lottery sales by about 8%. Jackpot games saw about 6%-10% declines. Few big jackpots had a large impact on low sales of Mega Millions and Powerball. Even adjusting for pandemic effects, sales were still below goal due to the year's low jackpots across both games resulting in abnormally low annual sales.

Scratchers sales declined by 9% due to the COVID-19 pandemic and were negatively impacted in multiple ways. Consumer demand lowered during initial weeks of stay-at-home orders. After consumer demand began to rise, the supply chain could not always replenish retailer inventory needs. The Lottery also implemented Social Distancing Protocols and staggered staff schedules in the Distribution Centers to protect staff, which also affected replenishment of inventory. Monthly new game launches were suspended and with Scratchers accounting for the largest share of sales, it had the highest dollar impact from the pandemic.

In order to estimate what the Lottery's contribution to California Public Education would have been last fiscal year without the pandemic, adjustments to expenditures were calculated based on the projected sales and operating expenses that changed in response to the pandemic. Prize expense and retailer compensation used actual percentages applied against revised sales estimate. Operating expenses included increased marketing expenses (with a return to the original marketing plan) and expenditures related to the pandemic, such as various Personal Protective Equipment items and contracts for deep cleaning. The pandemic triggered a 7% decline in Lottery contributions to Education. However, even with the reductions, the Lottery provided California public schools with more than \$1.5 billion last year.

Commissioner Mills thanked Director Johnson and Mr. Hasegawa for the level of data used for their presentations. She asked Mr. Hasegawa to explain how the historical data presented will be used to anticipate adjustments to forecast this year's sales to continue to maximize the Lottery's contribution to education. Mr. Hasegawa explained that some of the early numbers and factors were used in setting goals for this year. One example is in the Scratchers area and the adaptation that was needed in the social distancing protocols. It was anticipated in the sales goals setting that by the second quarter, the Lottery would get back to normal distribution. Staff will not have to make too many adjustments within the current fiscal year, as this type of data was analyzed to create a more accurate goal for the current fiscal year. Sales Representatives were also able to return to the field, which aided distribution because they would deliver tickets, as well. This was also part of the overall plan.

c. Overview of Financial Analysis & Risk Management Unit

Tyler Cabral, Manager of the Financial Analysis & Risk Management (FARM) Unit in the Finance Division, provided an overview of the unit. Goals include reaching

\$10 billion in revenues, earning \$2.5 billion in contributions to education, developing research standards and journal-quality papers; creating actionable, data-driven reporting, fostering collaborative relationships between all divisions, and, establishing a strong, creative and analytical culture. Mr. Cabral went over the Profit-Based Cost Accounting project, a multi-year project that began in 2016, with a goal to provide the Lottery with detailed reporting and analysis. The information will be available for everyone to review. The focus of the project is on maximizing profits, minimizing risk, and helping the Lottery make better informed decisions.

The FARM unit is responsible for reports with backup documentation that is suited for organizational review. The information used by FARM combines data and modeling to answer questions, and utilizes research-standard software.

Commissioner Mills asked what type of cross-collaboration is done by FARM and other departments. Mr. Cabral stated that his unit is working on risk management, which is a report focused on retailers who have unusual validations and specific gambling habits. FARM is looking into embezzlement, fraud, stolen tickets, and other organizational risks. The goal is to foster robust cross-collaboration with Business Planning, Internal Audits and the Information Security Office. Commissioner Stern informed Mr. Cabral that it is important to partner with the Information Management team to make sure of the integrity of the data is accurately utilized.

7. Consent Calendar

8. Action Items

a. Communications Effectiveness Tracking Study Services Contract Amendment

Deputy Director of Business Planning, Jim Hasegawa, requested Commission approval for an extension to the Alter Agents contract to conduct Tracking Study services from February 23, 2021 through August 6, 2021. The Tracking Study fulfills requirements from the Lottery Act that states that the Lottery is to conduct an ongoing study of “the reaction of citizens of the State to existing or proposed features in Lottery Games.”

Commissioner Mills asked if the extension was enough time to get through the current Request for Proposal (RFP) process and any transition time that might need to happen if there is a new vendor that happens to be selected through the process. Mr. Hasegawa stated that the plan is to bring the contract award to the Commission at the March meeting for approval. If there is a new vendor selected, it will give Lottery staff many months for the transition to run a parallel study between the current vendor and new vendor. They will be collecting data simultaneously so that staff can assure there is no difference in the information based on the vendor.

Commissioner Mills stated that staff had past difficulties with some of the RFP processes regarding companies not responding or not being able to meet the Lottery's needs. She asked if staff had confidence that this particular RFP would be successful. Mr. Hasegawa explained that the RFP deadline was pushed back because of the number of questions from interested vendors that staff had to respond to. There is a large community of vendors for this type of study.

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

b. Extension and Addition of Funds to the KPMG LLP Financial Statement Audit Contract

Acting Deputy Director of Internal Audits, James Shannon, requested Commission approval for an extension of one year and augment the available funds to KPMG LLP for independent financial auditing and related services. The Lottery Act requires the Lottery to hire an independent firm to conduct an annual audit of accounts and transactions of the Lottery.

Commissioner Mills asked Mr. Shannon to elaborate on staff's preparation of the RFP process and the steps that are being taken to ensure the Lottery receives adequate responses, best value and adequate services in this area. Mr. Shannon responded that the typical RFP process takes approximately nine months to perform, however for this one, staff has added an additional 30-60 days in the process to allow enough time to work with the Procurement and Services Unit on exploring more creative ways on increasing the number of responses the Lottery will receive to the solicitation.

Commissioner Mills pointed out that KPMG had been with the Lottery for quite some time and wanted to make sure that there were steps in place to ensure their ongoing independence. Mr. Shannon explained that, according to the American Institute of Certified Public Accountants (AICPA), it is recommended that the managing partner on Audit Services be rotated once every five years, or a minimum of once every five years. KPMG has worked with the Lottery on rotating assignments for managing partners.

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 Kirtman. The motion passed unanimously.

c. Amendment to Microsoft Enterprise Licensing Agreement

Acting Deputy Director of Information Technology Services, Vincent Espinosa, requested Commission approval to amend the current three-year contract with SoftwareOne, Inc. in order to remove years two and three of the Office 365 M5 subscription component of the contract. The Department of Technology engaged in direct negotiation with Microsoft for this and other products.

Commissioner Mills asked if there were any legal concerns or any early cancellation penalties that the Lottery is subject to. Mr. Espinosa stated that the contract does allow the Lottery to seek the service somewhere different for a lower price. There have not been any legality issues or questions from SoftwareOne. Commissioner Mills commended Mr. Espinosa and staff on the efforts to leverage the overall purchasing power of the State of California to drive down the everyday costs by partnering with a fellow State agency to maximize the Lottery's contribution to education.

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

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

d. Digital Signature Technology - DocuSign

Acting Deputy Director of Information Technology Services, Vincent Espinosa, requested Commission approval to enter into a one-year agreement to renew subscription and support services for DocuSign digital signature technology with Allied Network Solutions Inc.

Commissioner Stern asked if DocuSign was an enterprise-wide deployment for all business functions that require digital signatures or if it was compartmentalized. Mr. Espinosa stated that it is an enterprise-wide cloud-based solution.

Commissioner Mills asked why this type of service fell outside of the RFP requirements. Mr. Espinosa explained that this service was a leverage procurement practice that the Lottery was able to invoke, as prior to the pandemic, specific companies were recommended by the Secretary of State to perform analysis and evaluations. Commissioner Mills commended staff for using this technology tool for increased efficiency but requested that in the future, staff make a more robust analysis of available tools to make sure the Lottery is getting the best value and service for this activity. Mr. Espinosa stated that as the Chief Enterprise Risk Officer, it is a very much more secure way of routing items around the office to make sure that only the correct employees view information.

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

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

e. Scratchers Ticket Delivery and Return Services Contract

Deputy Director of Sales and Marketing, Sharon Allen, requested Commission approval to award the Scratchers Delivery and Return Services Contract to Unity Courier Inc. for a term of five years. The Lottery ships Scratchers products from two distribution centers to over 23,000 retailers throughout the state, including ongoing maintenance orders as well as auto-ship orders.

Commissioner Mills stated that the RFP process is a time consuming and expensive activity and asked if staff has learned from the experience. She further inquired on how staff is applying these experiences to future processes to make it more seamless and cost effective for the agency. Ms. Allen stated that for this particular agreement, the shipping industry has exploded and evolved over the length of the contract. Staff is learning how those evolutions have impacted the Lottery and are researching how other lotteries are handling it. Procurement Services, which is in the Lottery's Operations Division, is looking into the process to see if the specific requirements were identified. Pre-research is key in order to allow the Lottery to effectively attract as many bidders as possible, which includes advance research through best practices in the industries, gaining information through the trade journals or talking to other lotteries. Staff learned that thoroughness will make the Lottery more effective in attracting a wide variety of bidders and getting the best quality vendor partners that will meet the needs at the right price.

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

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

f. Fiscal Year 2020/21 Vehicle Procurements

Deputy Director of Operations, Tiffany Donohue, requested Commission approval to procure 57 vehicles. The Lottery has existing fleet vehicles that require replacement, either because they have exceeded the replacement mileage criteria or will incur mechanical repair costs that exceed the vehicle's value. In addition, the Lottery continues to add positions that are eligible to receive vehicles, but do not have ones assigned to them.

Commissioner Mills asked for an explanation on any environmental analysis that was done on the types of vehicles that are being procured. Ms. Donohue stated that the Lottery's fleet program is consistent with the State of California Department of General Services Green Program. Consistent with the State's initiatives and the Governor's desire to reduce climate impacts, there are many vehicles that can be sourced that are environmentally friendly. Staff must source vehicles that will meet the business needs, but environmental impacts are very important to the Lottery, which is a major factor.

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

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

9. Commissioner General Discussion

10. Scheduling Next Meetings

The next Commission Meetings are tentatively scheduled for March 25, May 27, and June 24, 2021.

11. Public Discussion

For Public Discussion, Chairman Ahern sought public comments or questions. No one came forward.

12. Adjournment

Meeting adjourned at 11:37 a.m.