



M E M O R A N D U M

Date: March 25, 2021

To: California State Lottery Commission

From: Alva V. Johnson, Director *AVJ*

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Sales & Marketing Division

Subject: Item 8(c) – Addition of Funds to Pollard Banknote Limited Instant Ticket Printing Contract

ISSUE

The California State Lottery (Lottery) contracts with Pollard Banknote Limited (Pollard) as a secondary vendor for instant tickets (Scratchers®) production. Additional funds are required to allow for continued printing of Scratchers tickets.

BACKGROUND

The Lottery currently contracts with Pollard as one of its three Scratchers printing vendors. The original contract term was December 1, 2013 through November 30, 2019 with an initial expenditure authority of \$50 million and included authority for the parties to amend the contract upon mutual written consent. In 2019, the California State Lottery Commission (Commission) exercised the first option to extend the contract by a term of 3 years to November 30, 2022, and added \$15 million to the authorized contract expenditure, bringing the maximum authorized contract expenditure to \$65 million.

Pollard typically produces approximately 12 percent of the Lottery's new games annually. It produced approximately 13 percent of new games in FY 2018-19 and accounted for approximately 18 percent of total sales. However, in FY 19-20, its games accounted for approximately 32 percent of total sales, including seven of the Lottery's top 20 best-selling games.

This increase is due mainly to the immense success of its crossword games, which the Lottery has expanded to include a \$20 crossword game. In most weeks, these games are not only the top seller in their respective categories, they are also the most profitable. The Lottery also engaged Pollard for a new instant game category product launch in 2020

for Pac-Man Scratchers, which had very strong sales overall including setting several all-time weekly Scratchers sales records.

Additionally, during the COVID-19 pandemic, the Lottery has focused on ensuring distribution of its highest-selling games, which prioritized certain Pollard games.

This has resulted in approximately double the annual printing and licensing costs than were originally projected. Based on the combination of new products, maintenance of its top-selling games and increased player demand, the Lottery will exhaust the original contract expenditure increase earlier than originally projected.

DISCUSSION

Approximately \$5 million of funding is available for the remainder of the term ending in November 2022. Staff created a revised projection, estimating printing costs and expenditure requirements based on the accelerated rate of change over the past two years, as well as projecting for future needs over the remainder of the contract.

This projection encompasses the key changes since the contract extension and expenditure increase in 2019, notably the introduction and sustained growth of the \$20 crosswords and increased consumer demand for Pollard games. Additionally, this also allows for a subsequent launch of a popular licensed property like Pac-Man to continue momentum of increased player engagement.

Lottery staff estimates that an additional \$40 million will be required to allow the Lottery to have sufficient funding until the current term ends. This amount will support the increase in the number of Pollard Scratchers that the Lottery has launched, greater consumer demand of its higher price point tickets and the ability to launch additional popular licensed properties from Pollard to grow playership across the Scratchers product line.

RECOMMENDATION

Lottery staff recommends that the Commission approve an increase in expenditure authority for Pollard's current instant ticket printing contract. The proposed increase will add \$40 million to the contract, for a maximum expenditure amount of \$105 million.