

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – January 27, 2022

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

Sara Sheikholislam, Deputy Director of Internal Audits

Jennifer Chan, Deputy Director of Information Technology Services

Tiffany Donohue, Deputy Director of Operations

Chris Fernandez, Deputy Director of Human Resources

Jim Hasegawa, Deputy Director of Business Planning

Nicholas Buchen, Deputy Director of Finance

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 27, 2022 proposed agenda. Commissioner Peter Stern made the motion to approve the agenda and was seconded by Commissioner Keetha Mills. The agenda passed unanimously.

5. **Approval of the Minutes**

Chairman Ahern asked if there were any additions or corrections to the November 18, 2021, minutes. Commissioner Mills made the motion to approve the minutes of the November 18, 2021, Commission Meeting and was seconded by Commissioner Nathaniel Kirtman. The minutes passed unanimously.

6. Informational Items

a. Director's Comments

Director Alva Johnson provided an estimate of Lottery sales through January 15th, coming in at \$4.9 billion. Sales are trending at 13% higher than Lottery sales over the same time period last fiscal year and are on pace to surpass \$5 billion five weeks earlier than last fiscal year. Total Lottery sales are \$129.4 million higher than the Lottery's mid-year sales goal.

Scratchers[®] distribution sales are over \$3.75 billion with games continuing to see strong year-over-year sales growth. Currently, Scratchers sales are pacing 14% ahead of last year's sales and 7% over goal.

The multi-state games, which include Powerball[®] and Mega Millions[®], have wrapped up the first half of this fiscal year with almost \$570 million in sales. Powerball's year-to-date sales of \$358 million is already making up 88% of the total annual goal, just halfway through the year. Mega Millions sales for the first half of the year are over \$200 million and are 90% of goal. Mega Millions had stronger sales due to higher jackpots last fiscal year, therefore current sales are running 19% behind. Combined multi-state games sales are netting a 15% growth over last fiscal year thus far. Through mid-January, sales for California's in-state jackpot game, SuperLotto Plus[®], are now over \$130 million and tracking slightly higher than goal and 6% higher than last year's sales.

The Daily Games, which include Daily 3, Daily 4, Fantasy 5, and Daily Derby[®], have combined sales over \$235 million and are running very close to their category goal. Only Daily Derby's current sales are trailing last year's sales. Hot Spot's[®] mid-year sales are totaling over \$217 million. Year-to-date sales are 6% over goal and 14% higher than last year through this time.

The Lottery's contribution to education figures are based on the Lottery's monthly cumulative financial sales report through December 31st. Estimated contributions to education are running 15% ahead of goal and total contributions to education already exceed \$1 billion through the first half of the fiscal year.

Director Johnson provided an overview of the variety of different holiday and seasonal Scratchers for 2021. The Lottery typically sees strong sales during the winter holiday months as players give the fun of Scratchers as gifts. As the Scratchers gifts were claimed after Christmas, the week ending Saturday, January 1st, had validations sales of over \$148 million, which is the third highest Scratchers week ever.

Additional highlights included the recently released unaudited sales figures for Fiscal Year 2020-21. With the support of communities from across the state, the Lottery earned a record \$8.4 billion in sales last fiscal year, which is estimated to

result in approximately \$1.87 billion in contributions to education. In calendar year 2021, the Lottery created a record-breaking single-year tally of more than 146 new millionaires.

The year ended on a high note with notification that the California State Lottery received recertification from the World Lottery Association (WLA) for its Responsible Gaming Level 4 Framework. The WLA recertification is an integral part of the Lottery's dedication to Responsible Gaming and is the highest globally recognized award for this kind of program.

This year, the Lottery improved and expanded its contactless drop-off system at its district office locations and later, as public health conditions improved, the Lottery began allowing winners to make appointments for in-person service. Through it all, the Lottery has remained committed to growing in a responsible manner while staying keenly focused on its mission to provide supplemental funding to California public education.

Director Johnson addressed the current COVID-19 surge related to the Omicron variant and the effects it is having on the Lottery team. Staff has been navigating the complex pandemic in real time and adjusting and pivoting as many times as is necessary to keep the team and our communities safe by following the evolving guidance and policies of various public health agencies. The Lottery has a robust COVID Safety Protocol, known as the CSP, which is housed on the Lottery's intranet site for all employees to access. It serves as both our emergency COVID policy as well as a repository for pandemic related guidance and resources.

The Lottery is now making N95 masks available to all employees upon request, as well as continuing to issue other Personal Protective Equipment such as face shields or gloves where appropriate. Field staff are reminded of the long-standing Lottery policy that employees can and should leave a retail location and contact their supervisor or manager if they feel unsafe for any reason. The testing program for employees with unverified vaccine status is going smoothly at a number of the Lottery's locations and along with the partnership with CDPH, staff expects to have the testing program fully implemented at all Lottery facilities in the near future.

Lottery staff is tracking all employee COVID cases and potential exposures at Lottery worksites and communicating those exposures to all affected employees in real time so that people can take the necessary next steps to keep themselves, their families, and their communities safe. Director Johnson thanked staff members in the Human Resources, Security and Law Enforcement, and Operations Divisions who are involved in this tracking which takes hundreds of hours each week to accomplish this task.

Chairman Ahern asked if state employees must indicate their vaccination status. Director Johnson replied that they do not and called upon Chris Fernandez,

Deputy Director of Human Resources, to elaborate. Mr. Fernandez stated that employees are offered the opportunity to verify their vaccination status and the states testing policy requires that tests be given on a weekly basis when an employee does not have a status verified as fully vaccinated.

Commissioner Mills asked if staff could speak briefly about the inner relation between the increase in the sales numbers versus the increase in contribution to education numbers. Mr. Johnson stated that the Lottery has a robust mix of games and each of those games has different levels of profit for the Lottery and all of the Lottery's profits go to education. The instant ticket games, such as Scratchers, are more profitable than the draw games. It also depends on the performance in each period, which depends on factors that can't be controlled, such as the popularity of the games and when jackpots occur. Jim Hasegawa, Deputy Director of Business Planning, explained that data from the last six months displayed the profit over goal is at 15%, where the sales over goal is approximately eight percent. The large Powerball jackpot exacerbated the differences and generated sales all at once in one big week. As time goes on, that probably will go back to a more normal level. Because there could be unfortunate luck in the formations of the draw game jackpots, Scratchers will make a larger share than initially anticipated in the goal, which is why the Lottery's sales growth is higher than the actual percentage over goal for our contributions.

7. Consent Calendar

8. Action Items

a. Emergency Extension of the KPMG LLP Financial Auditing and Related Services Contract

Deputy Director of Internal Audits, Sara Sheikholislam, requested Commission approval of the emergency extension of up to one year for the financial auditing and related services to enable KPMG to finish their current audit of the Lottery's Fiscal Year 2020-21 financial statements and to allow for some transition period between KPMG and the successor to the current contract.

Commissioner Mills stated that there is a regulation that requires the Lottery to have an annual audit and asked if within that regulation, were there any other regulations that prescribe a timeline under which we are to have an audit completed? Ms. Sheikholislam responded that she would look into it to provide an answer for Ms. Mills' question. Nicholas Buchen, Deputy Director of Finance, stated that the government code section that requires the Lottery to have an independent audit of the financial statements is due 120 days after the close of the fiscal year, which is October 28th of each year. However, there have been some recent pronouncements that have made that date unachievable for the last several fiscal years. Even though there is a requirement date, there are no

penalties for not meeting that date. Other departments have faced the same pronouncements so there have been delays across the board.

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. Juniper Network Maintenance & Support Contract

Deputy Director of Information Technology Services, Jennifer Chan, requested Commission approval to enter into a three-year agreement with Castro International to renew the Juniper Optimum Care service package for support services to ensure continued reliability and readiness of the Lottery network.

Commissioner Stern asked if staff has a sense of how long the hardware that is currently being implemented will be viable and at which point would the Lottery consider an upgrade from a hardware perspective. Ms. Chan responded that the department is currently undergoing a network switch evaluation assessment. This maintenance and support contract would take the Lottery through the two to three-year time period it would take staff to potentially migrate to a new platform if the decision is to move away from the existing hardware that is currently used.

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

c. Amendment to Statewide Architectural Services Contract

Deputy Director of Operations, Tiffany Donohue, requested Commission approval for the extension of LPAS Inc. (LPAS) contract, which expires March 20, 2022. LPAS provides architectural design and engineering services and the extension is needed to support completing of Lottery facility related construction projects. In accordance with the current contract, the Lottery may invoke an emergency extension for up to one year under the same contract terms and conditions.

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 Stern. The motion passed unanimously.

9. Commissioner General Discussion

10. Scheduling Next Meetings

The next Commission Meetings are tentatively scheduled for March 17, May 26 and June 30, 2022.

11. Public Discussion

For Public Discussion, Chairman Ahern sought public comments or questions. Paulina Vasquez, SEIU Union Steward and Lottery District Sales Representative, voiced her concerns regarding COVID safety and testing. Cathy Chavez expressed her disappointment of a Lottery commercial, and specifically noted that she believed the content was insensitive. Coty Walker presented a new Lottery game idea.

12. Adjournment

Meeting adjourned at 10:57 a.m.