

**STATE OF CALIFORNIA
TRANSCRIPT OF PROCEEDINGS**

**CALIFORNIA STATE LOTTERY COMMISSION
COMMISSION MEETING**

TIME: 10:03 a.m.
DATE: March 30, 2023
PLACE: California State Lottery Headquarters
700 North 10th Street
Sacramento, California 95811

Transcription Service: Victoria Brown
Foothill Transcription Company
9328 Elk Grove Blvd.,
Suite 105-309
Elk Grove, California 95624
(916) 892-9869

--oOo--

A P P E A R A N C E S

California State Lottery Commission

Gregory Ahern
Chair of the Commission
Commissioner

Tiffani Alvidrez
Commissioner

Anthony Garrison-Engbrecht
Commissioner

Participating Lottery Commission Staff

Alva V. Johnson
Director

Fernando Aceves
Chief Counsel

Tiffany Donohue
Deputy Director of Operations

Jennifer Chan
Deputy Director of Information Technology Services

Elisa Topete
Assistant to the Commission

Rebecca Estrella
Recording Secretary

--oOo--

I N D E X

<u>Description</u>	<u>Page</u>
1. Call to Order	4
2. Pledge of Allegiance	4
3. Roll Call of Commissioners	4
4. Special Election of Vice Chair of the California State Commission	4
5. Consider Approval of the Agenda	6
6. Approval of the Minutes of the February 2, 2023 Commission Meeting	7
7. INFORMATIONAL ITEMS:	
a. Director's Comments	7
b. Statewide Scratchers Shredding Program and Approach to Address Backlog	12
8. CONSENT CALENDAR	16
9. ACTION ITEMS	
a. Palo Alto Network Firewall Maintenance Renewal	16
b. ServiceNow Human Resources Service Delivery (HRSD) Implementation	18
10. Commissioner General Discussion	22
11. Scheduling Next Meeting May 25 and June 29, 2023 in Sacramento	23
12. Public Discussion	23
13. Adjournment	24

--oOo--

March 30, 2023

Sacramento, California

--oOo--

CHAIR AHERN: Good morning, everyone. We'll call our California State Lottery Commission Meeting to order. Today's date is March 30th, 2023. If you'll please stand, we'll start with the Pledge of Allegiance. Please join me.

(The Pledge of Allegiance was recited.)

CHAIR AHERN: Thank you very much. Please be seated. Will the Secretary please call the roll?

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: (No audible response.)

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Here.

MS. TOPETE: Commissioner Garrison-Engbrecht?

COMMISSIONER GARRISON-ENGBRECHT: Here.

MS. TOPETE: Commissioner Rasouli.

CHAIR RASOULI: (No audible response.)

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Here. All right. Thank you very much. I have Number Four is a special election for vice chair for California State Lottery Commission. Chief Counsel Fernando, can you please review the rules on the running of elections?

CHIEF COUNSEL ACEVES: Yes, thank you, Chair

Ahern.

The California State Lottery Act provides that the Commission shall elect annually from its membership a vice chairperson of the Commission. That is Government Code 8880.19. Any commissioner can put the name of any commissioner into nomination and a commissioner can nominate him or herself to serve as vice chair. The Lottery Act does not require a particular method of making nominations.

Once nominations have been made, Chair Ahern shall declare nominations closed. The votes are asked of each commissioner on the nomination as with all commission votes under the Lottery Act. And it takes three votes to take an action. Chair Ahern will then declare the results of the election.

CHAIR AHERN: All right. Thank you very much, Fernando. We shall have open nominations for the position of vice chairperson of the commission. Keetha Mills has received the nomination for the vacant position of vice chair with the departure of former Vice Chair Peter Stern.

CHIEF COUNSEL ACEVES: Thank you, Chair Ahern. I would like to note for the record that Commissioner Mills has received a nomination for the Commission Vice Chair. Now, other than Commissioner Mills, are there any other nominations for the position of vice chair of the Commission?

CHAIR AHERN: Do we have any other nominations? Okay. Hearing none, I declare the nominations closed. Can we please have a vote by roll call?

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Aye.

MS. TOPETE: Commissioner Garrison-Engbrecht?

COMMISSIONER GARRISON-ENGBRECHT: Aye.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Aye. All right. That's our three votes. The election of Commissioner Mills as the vice chair of the California State Lottery Commission is approved. So, thank you very much. I appreciate the assistance.

We have Item Number Five, which is approval of the agenda. Commissioners, does anyone have or want to suggest any changes to today's agenda in any respect? Hearing none, do I hear a motion to adopt the agenda?

COMMISSIONER ALVIDREZ: Motion to adopt.

COMMISSIONER GARRISON-ENGBRECHT: Second.

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

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Aye.

MS. TOPETE: Commissioner Garrison-Engbrecht?

COMMISSIONER GARRISON-ENGBRECHT: Aye.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Aye. All right, thank you very much. Move on to Item Number Six, which is the Approval of the Minutes. Are there any corrections to the minutes? Seeing none, do I hear a motion to approve the minutes of the February 2nd, 2023 Commission Meeting?

COMMISSIONER GARRISON-ENGBRECHT: Motion to approve.

CHAIR AHERN: Is there a motion for a second?

COMMISSIONER ALVIDREZ: Second.

CHAIR AHERN: A motion and a second. Will the Secretary please call the roll?

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Aye.

MS. TOPETE: Commissioner Garrison-Engbrecht?

COMMISSIONER GARRISON-ENGBRECHT: Aye.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Aye. Okay. Moving right along, Item Number Seven, Informational Items. And we'll go to our Director Alva Johnson.

DIRECTOR JOHNSON: Good morning, Mr. Chairman and Members.

CHAIR AHERN: Good morning.

DIRECTOR JOHNSON: So good to see you today. I am pleased to present to you today our Commission Sales Report for Thursday, March 30th.

This year Lottery sales surpassed the \$6 billion mark within eight months, which is faster than any prior fiscal year. Lottery sales through mid-March are over \$6.7 billion. Sales are pacing well above our projections for this year at 14 percent over goal. They are also tracking 5 percent ahead of last year's record-breaking sales.

The Multi-State games, Powerball and Mega Millions, have sales now exceeding \$1.29 billion. This already surpasses our entire goal for these games by more than 300 million. This is the first time these games have had this extraordinary sales levels so early in the fiscal year. In fact, we have already beaten the prior full fiscal year record set in 2019 of 1.26 billion, and we still have three and a half months left in the current year. This is all thanks to the unlikely occurrence of several large jackpots this year. Just over the past eight and a half months, these games have offered players an astounding seven draws with jackpots \$1 billion or higher. Last year we didn't have any.

Super Lotto Plus, our California-only jackpot game, continues to pace moderately ahead of its goal, and sales through the first eight and a half months of last year. While this game does not achieve the same level of jackpots as the multi-state games, its current jackpot is rolling at its highest level in over two and a half years.

This has helped keep the game exciting for our players and our weekly sales above goal.

Hotspot and our Daily games are performing moderately better than expected through mid-March, coming in above goal and on par with last year's sales.

Last but not least, as seen on the second line of this table, Scratchers sales contribute a significant portion to total annual sales. With over \$4.7 billion in sales so far, Scratchers are pacing slightly ahead of goal despite lagging behind last fiscal year's sales. As mentioned in prior Commission meetings this year, we expected softer Scratcher sales as fewer pandemic restrictions lead to greater competition for our player's entertainment dollars. Fortunately, the actual decline in demand is not as large as we forecasted, and Scratchers sales continue to run 3 percent ahead of goal.

While the multi-state games have been getting a lot of well-deserved attention this year due to several billion-dollar jackpots and California winners, Scratchers are still bringing in nearly 70 percent of total Lottery sales this year. As such, I wanted to share with the Commission a little more about some of our recent Scratchers efforts.

The Lottery has continued its Scratchers category repositioning effort. The goal of this long-term brand

initiative is to diffuse barriers to play by repositioning Scratchers products as a small moment of entertainment that provides California adults a great way to add a little play to their day. The images on the top and right of this slide give you a little flavor of what these efforts look like. In addition to this marketing effort, the Lottery has also explored new ways to improve the Scratchers category through diversifying the mix of games and providing games that could appeal to all California adults. Combined with the marketing campaign, the goal is to improve perceptions of Scratchers, grow playership and sales in a responsible way, and ultimately provide greater contributions to education.

Most recently games shown on this slide, such as Uno and Magic 8 Ball, were launched. These properties lean into familiarity and playful nostalgia to appeal to casual and new adult players. Additionally in February, the Lottery launched a new \$30 crossword game, Crossword Extreme. This was the first time a crossword-theme Scratchers game was launched at this price point in California. Not only are crossword games some of the Lottery's best-selling Scratchers games, but they also have slightly better profit margins. This made it a win-win for the Lottery by providing our players a new premium crossword game with higher prizes than previously offered, but also by providing a little more funds to education per ticket than

our other traditional \$30 games. Within two weeks at stores, Crossword Extreme became the second-highest selling Scratchers game on the market bringing in over \$10 million in sales per week. Over the past month, Crossword Extreme has brought in over 5 million in additional contributions to education.

That leads me to this month's updates on our estimated contributions to education. Through February, expected funds for education are significantly exceeding our goal by 31 percent. Total contributions are estimated at over 1.5 billion, which is also ahead of last year's estimates through this time.

Lastly, I wanted to share with the Commission the Lottery's efforts supporting National Problem Gambling Awareness Month. As you may know, March is Problem Gambling Awareness Month, and as we have for many years, the Lottery joined the California Department of Public Health's Office of Problem Gambling and other responsible gaming advocates to promote awareness of gambling disorders and the availability of treatment and recovery programs. The Lottery supports Problem Gambling Awareness through special messaging that can be found on its tickets, at retail locations, on the Lottery's communications channels, and through paid advertising.

While it is very important to all of us at the

Lottery that we support and promote responsible gaming efforts throughout the full year, in March an extra spotlight is given to these important messages. Our collective efforts over the course of the month are a significant part of the Lottery's responsible gaming program that has been internationally recognized with the highest certifications by the World Lottery Association.

That concludes my remarks for you today. I'm happy to answer any questions that you have. And I also want thank our Business Planning and Research Team for putting these comments together.

CHAIR AHERN: All right. Thank you. Any questions for the director? All right Alva, thank you very much.

DIRECTOR JOHNSON: Thank you.

CHAIR AHERN: Alva, are we going to have a presentation by Tiffany today on Item B?

DIRECTOR JOHNSON: Operations is going to provide an informational update on our shredding efforts.

CHAIR AHERN: Okay. All right. Here we go.

DEPUTY DIRECTOR DONOHUE: Good morning, Commissioners.

CHAIR AHERN: Good morning. Item Number 7B is Statewide Scratchers Shredding Program and Approach to Address the Backlog. Tiffany?

DEPUTY DIRECTOR DONOHUE: So the Lottery is entering into two non-competitive bid agreements for urgent, short-duration, non-sellable Scratcher ticket shredding to alleviate backlogs impacting statewide operations. Although these agreements do not individually meet the monetary threshold for Commission approval, the Lottery is informing the Commission of this action for transparency purposes.

The Lottery utilizes shredding as a method to securely dispose of non-sellable Scratchers products that includes end of game, zero top prize, and partial pack products. The Lottery supports this program through contracted shredding services with regional providers at the Lottery's distribution centers.

At the beginning of the pandemic, the Lottery had two agreements in place to service the distribution centers. Both agreements were sufficient in duration of services and contract value, which was based on historical shred usage. However, due to the pandemic, the Lottery was forced to adjust many aspects of its operations, including field operations and Scratchers distribution. As a result, many games that would normally be designated as end of game, remained in inventory longer than anticipated. In addition to the Lottery's operational limitations, there was surging national consumer demand, which caused disruption across the entire supply chain, including manufacturing and shipping

from the Lottery's printing vendors.

Also during this period, over 1800 Lottery retailers temporarily or permanently closed their businesses, which required the retrieval of Scratchers inventory by the Lottery. Once operations began to normalize and supply chain issues diminished, the Lottery's distribution centers, and district offices were left with a significant volume of unsellable tickets designated for destruction. Due to these factors, this quantity far exceeded the Lottery's contracted spending authority.

In addition, the contractor servicing the Lottery's Southern Distribution Center encountered limited capacity and performance issues exasperating an already challenging situation and shred backlog continued to increase. Currently, there are 505 pallets at the Northern Distribution Center and 645 pallets at the Southern Distribution Center, which are designated for destruction. The Lottery does not have a current contractor at either facility with the capacity to address this level of shredding in a short timeframe.

The backlog of materials at the distribution centers impacts the Lottery's ability to fully utilize our warehouse space, such as limiting our ability to receive, store, and distribute new game inventory and point-of-sale materials. In addition, due to lack of storage capacity,

backlog materials must be stored in other areas of the warehouse, and if the Lottery does not address this issue, will eventually impact the safety of the onsite staff as inventory continues to increase.

To address these issues, the Lottery conducted market research of available providers who could take on the project work over a compressed time period, determine that the providers rates were fair and reasonable, and that each of them had good service records. Based on these criteria, the Lottery selected two contractors, one for each distribution center, to perform the work. It is estimated the contractors will start work by mid-April and finish the project work by the end of May. This will allow the Lottery to assume full, regular operations with receipt and appropriate storage of materials at each distribution center.

In the meantime, there are two separate agreements in place to address the Lottery's ongoing statewide shredding needs. The Lottery also plans to administer a statewide solicitation to go into effect once the two regular shredding agreements expire. The two non-competitive bid agreements will be led pursuant to California Lottery Regulations, Section 8.1.2(a), Exceptions from Formal Bidding Based on Insufficient Time for Formal Competitive Process Because of an Urgent and Compelling Need

to Contract for Goods or Services Necessary for the Immediate Preservation of Lottery Operations.

I can answer any questions you may have.

CHAIR AHERN: All right, Tiffany, thank you very much. Any questions? All right, you answered my questions during the briefing on the call. So thank you very much. I appreciate --

DEPUTY DIRECTOR DONOHUE: Thank you.

CHAIR AHERN: -- your work. All right. Item Number Eight. The next item on the agenda is the Consent Calendar. There are no items under Consent Calendar, so we'll proceed to the Action Items.

Item Number Nine, 9A, is the Palo Alto Network Firewall Maintenance Renewal, Jennifer Chan. Good morning, Jennifer.

DEPUTY DIRECTOR CHAN: Good morning, Chairman and Commissioners.

Item 9A is a request for approval to renew the maintenance and support services for the Lottery's Palo Alto (PAN) Firewalls. The Lottery's infrastructure is essential to conducting Lottery business operations and supports critical functions within the organization.

Currently utilized PAN firewalls across our entire technology infrastructure for critical security functions such as identifying, isolating, and/or illuminating

potential threats to prevent intrusions by hackers, and other threats to the Lottery's data. Firewalls monitor and inspect all data incoming into and out of our IT infrastructure and are leveraged to identify block threats and mitigate them before they cause damage. Additionally, Palo Alto offers specialized technical expert support that is essential to help us resolve issues when supporting mission-critical services.

Renewal of these maintenance and support services will ensure that we have no loss of services. If this agreement is not renewed, Lottery operations could be significantly impacted to the loss of services and our risks to our security process. Therefore, Lottery staff recommend that the Commission approve the renewal of the maintenance and support services for the Lottery PAN firewalls. The total amount for this agreement is \$1,239,652.82 for a three-year term beginning May 21st of 2023 through May 21st of 2026. And I can answer any questions you may have.

CHAIR AHERN: Any Commissioners have any questions?

COMMISSIONER GARRISON-ENGBRECHT: No questions.

CHAIR AHERN: I just have one comment to talk to you on the briefing is that very important, great timing. Some of our local cities have been getting some ransomware and have been hacked, so this is very timely.

DEPUTY DIRECTOR CHAN: Thank you.

CHAIR AHERN: Thank you for your work. All right. Does any member of the public want to address the Commission at this time regarding Action Item 9A? Seeing none, do I hear a motion to approve Action Item 9A, Palo Alto Network Firewall Maintenance Renewal?

COMMISSIONER GARRISON-ENGBRECHT: Motion to approve.

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

COMMISSIONER ALVIDREZ: Second.

CHAIR AHERN: Motion and a second. Will the Secretary please call the roll?

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Aye.

MS. TOPETE: Commissioner Garrison-Engbrecht?

COMMISSIONER GARRISON-ENGBRECHT: Aye.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Aye. All right. The motion passes. Thank you very much.

Now, call on Jennifer Chan, again. All right. Item Action 9B, ServiceNow Human Resources Service Delivery Implementation Services.

DEPUTY DIRECTOR CHAN: Item 9B is a request for approval to enter into a new contract with KPMG, LLP to

obtain information technology (IT) consulting services for the implementation of ServiceNow Human Resources Service Delivery or HRSD software, which will expand the Lottery's usage of the ServiceNow platform to meet specific operational objectives, specifically, to address the Lottery's HR modernization project.

The Lottery's Human Resources Division or HRD is delegated by the California Department of Human Resources, CalHR, State Personnel Board, and the State Controller's Office to provide accurate and timely pay and benefits, treatment and appointment services, performance management services, examinations, selection services, position control, organizational management services, temporary separation coordination, and employee official personnel file services.

In Fiscal Year 21-22, HRD conducted market research to identify opportunities to automate their manual and paper-driven processes. HRD evaluated everything from labor-intensive processes, such as Request for Personnel Action (RPA), time and attendance or timesheets, and a wide variety of annual employee compliance forms. Having the ability for automated processes and being able to update employee profile information is critical to building the Lottery employee database.

Currently, HRD processes more than 50 types of HR

forms varying from annual to one-time forms throughout the year. This causes a significant drain on HRD's limited resources due to the annual inefficient processes that are in place and create risks to the Lottery due to issues, such as missed deadlines, time spent tracking down forms and/or lost forms. HRD and the Information Technology Services Division worked and collaborated closely to identify a straightforward solution that would meet HRD's immediate needs without requiring a complex implementation or long-timeframe to implement.

As the Lottery currently already has a ServiceNow platform in its environment, ServiceNow HRSD module was identified as the best solution that would meet their current requirements and would be flexible enough to meet their future needs. Implementation of the HRSD COG solution will automate and modernize HRD's processes, obtain standard State of California forms and associated automated workflows to improve their operations.

Therefore, Lottery staff recommend the Commission approve the IT consulting services contract, KPMG, LLP, to implement the ServiceNow HRSD module, maximum contract amount will be \$2 million for a three-year term beginning in May of 2023. And I can answer any questions you may have.

CHAIR AHERN: All right. Do any Commissioners have any questions or comments regarding Action Item 9B?

COMMISSIONER GARRISON-ENGBRECHT: Just a commentary that I appreciate the willingness to answer my questions during the briefing but also the depth of research that you've done with your team in the Human Resources Division to put together a comprehensive request. Thank you.

DEPUTY DIRECTOR CHAN: Thank you.

CHAIR AHERN: All right. And will this -- I forgot to ask -- will this have impact on the Lottery employees? They've been -- can you change any of their reporting processes or is everything going to stay the same and just be automated?

DEPUTY DIRECTOR CHAN: Everything will essentially be the same but will be an automated process and we will provide the necessary knowledge transfer and training to allow them to understand what the new process (overlapping).

CHAIR AHERN: That is my follow-up question. Thank you. So training will be available for the employees so there is confusion and they're ready to go when KPMG is ready to go, right?

DEPUTY DIRECTOR CHAN: Correct.

CHAIR AHERN: Okay. All right. Does any member of the public want to address the Commission at this time regarding Action Item 9B? Seeing none, do I hear a motion

to approve Action Item 9B, ServiceNow Human Resources Service Delivery Implementation Services?

COMMISSIONER ALVIDREZ: Motion to approve.

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

COMMISSIONER GARRISON-ENGBRECHT: Second.

CHAIR AHERN: We have a motion and a second.

Will the Secretary please call the roll?

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Aye.

MS. TOPETE: Commissioner Garrison-Engbrecht?

COMMISSIONER GARRISON-ENGBRECHT: Aye.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Aye. All right. Tiffany, thank you very much. Appreciate that.

Next on the agenda is the Commission General Discussion. Do any of the Commissioners have anything they'd like to bring up at this time?

COMMISSIONER GARRISON-ENGBRECHT: We need to briefly discuss the Audit Committee Selection process. I've had the opportunity to meet with current Commissioner Mills. According to the by-laws of the Audit Committee, there is a requirement of two Commissioners that need to be appointed to that committee to do -- to provide support to our internal auditor, but also to be able to follow up on

statewide regulations and the ongoing (inaudible) that currently happen. And I'd like to self-nominate myself.

CHAIR AHERN: Okay.

COMMISSIONER GARRISON-ENGBRECHT: I'd like to self-nominate me.

CHAIR AHERN: Well, you've made a great selection. Okay. We can just appoint him to the committee? All right. Congratulations. (Overlapping) --

COMMISSIONER GARRISON-ENGBRECHT: Happy to serve.

CHAIR AHERN: All right. You're good. Okay. Anything else? Okay.

At the last Commission meeting, Commissioner Mills mentioned a vacancy on the Audit Committee. So, are you going to be on the Audit Committee and helping with the IT as well?

COMMISSIONER GARRISON-ENGBRECHT: Just the Audit Committee.

CHAIR AHERN: Okay. Thank you. Got it. Do we need a motion for that? We're done. Okay. We can move on to Item Number 11? Okay. Item 11 is scheduled meetings.

We've tentatively scheduled Commission meetings on May 25th and June 29th, 2023. Both to be held in Sacramento. I hope we can all have a quorum at both those events.

Item Number 12 is Public Discussion. We have no one here for Public Discussion? Going once, twice, and

three times. Okay. Thank you very much.

Looks like we can move to adjournment. Motion to adjourn. We shall be adjourned. Thank you very much.

(End of Recording)

(MEETING ADJOURNED)

TRANSCRIBER'S CERTIFICATE

STATE OF CALIFORNIA)
) ss.
COUNTY OF SACRAMENTO)

This is to certify that I transcribed the foregoing pages 1 to 24 to the best of my ability from an audio recording provided to me by The California State Lottery Commission.

I have subscribed this certificate at Elk Grove, California, this 6th day of April 2023.



Victoria Brown
Foothill Transcription Company