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TRANSCRIPT OF PROCEEDINGS

CALIFORNIA STATE LOTTERY COMMISSION  
COMMISSION MEETING

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DATE: Thursday, May 28, 2020  
PLACE: Meeting held remotely via Microsoft Teams

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A P P E A R A N C E S

California State Lottery Commission

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Commissioner

NATHANIEL KIRTMAN, III  
Commissioner

PETER STERN  
Commissioner

KEETHA MILLS  
Commissioner

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Deputy Director of Business Planning

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Assistant to the Commission

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Thursday, May 28, 2020

Sacramento, California

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(Start of meeting not recorded, not transcribed herein)

**CHAIRMAN AHERN:** Do I hear a motion to approve Action Item 8a for the Ratification of the Emergency Six-Month Contract Extension with Stanley Convergent Security Solutions?

**COMMISSIONER MILLS:** So moved.

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

**COMMISSIONER KIRTMAN:** Second.

**CHAIRMAN AHERN:** We have a motion and a second; is there any further discussion? Hearing none, 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?

**CHAIRMAN AHERN:** Yes. Okay. Motion passes. Thank you very much. Moving on to Action Item 8b, Lottery Investment Strategy and Investment Policy, and we'll call on

Nick.

**MR. BUCHEN:** All right. So the Lottery's Investment Strategy and Investment Policy ensures sufficient cash flow to make scheduled payments to certain Lottery prizewinners. These payments are for our jackpot winners, who choose the annuity payout option in SuperLotto Plus, Mega Millions and Powerball, as well as the top prizewinners who choose the annuity payout in the Scratchers games that offer such an option. The Lottery's Investment Policy requires both our Investment Strategy and Policy to be reviewed and approved by the Commission annually. I'll start with the Lottery's Investment Policy, since this provides the framework for the particular investment strategy that we utilize. The Lottery's Investment Policy lays out the requirements of our investment program, which revolve around timeliness of payments to Lottery annuity prizewinners and safety of principal. The policy includes permitted investment categories and places limits on certain securities to promote diversification and to reduce risk. The Investment Policy also includes requirements pertaining to changes in credit ratings as well as the reinvestment of securities within our portfolio in certain situations. The Lottery's investment policy requires our review annually to ensure that its guidelines remain consistent with current principles and standards for the investment of funds managed

by a public entity. In addition, we review all investments within the Lottery's portfolio to verify that each continues to be in compliance with the provisions of our Investment Policy. During the individual Commissioner briefings we previously had to discuss the items in today's meeting, some changes were suggested to provide improved oversight and transparency of the Lottery's Investment Policy and make certain elements of it more transparent to both the Commission and the public. Therefore, rather than ask for your approval today, we will incorporate these suggested changes, and we'll bring this item back to you for approval in either the next or subsequent Commission meeting.

With that said, I'll continue on to the second part of this agenda item, which is the Lottery's Investment Strategy. The Strategy focuses on two main areas, activity and maintenance. The investment activity ensures sufficient cash flows to make scheduled payments to our top prizewinners who choose the annuity payout option. The other aspect of our strategy is maintenance of our investment portfolio. This includes ongoing monitoring and mitigation of potential investment risk, and our current Investment Strategy, which has remained unchanged for almost ten years now, is to purchase United States Treasury Bonds for new annuity prizewinners. We do this because these investments are backed by a repayment pledge from the United

States Government, which means they are essentially risk-free. Under our Investment Strategy, we time the maturity of our investments with the scheduled payments of the annuity prizes. Our Investment Strategy continues to focus on keeping our investment portfolio safe and secure, and I would like to emphasize that the primary function of both our Investment Policy and Strategy is to ensure the investments yield only what is needed for the scheduled annuity payments. That is why we typically acquire such conservative investments, but of course, we look for opportunities to leverage other investments with more risk to ultimately provide more funding to public education when it clearly makes sense to do so. Although we are not recommending to change the Investment Strategy at this time, rather than ask for your approval separate from the Investment Policy, we will include both items together for your approval when I present the changed Investment Policy at a future Commission meeting, and with that, I'd be happy to answer any questions.

**CHAIRMAN AHERN:** All right, before we go to the public, does any member of the Commission have any questions for Nick regarding Action Item 8b?

**COMMISSIONER MILLS:** Chair Ahern, this is Commissioner Mills. I do have a question for Nick. Nick, I'm wondering if you could just say a little bit more about

-- so I do recognize the policy is very conservative, and I think you did a really good job of explaining why that's important, because we want to be sure we can make our prize payouts to our annuitants, but you also mentioned that there could be situations where we might be open to taking more risk to earn in excess of our payouts, which would then go to Education. Can you just say a little bit more about, like, how that might happen? Like, what would that situation look like? Would it be something that the Commission would bring to you and say, hey, we'd like to have a little bit more risk tolerance here? Is that something that you guys have the expertise that you monitor and that you bring to us or maybe a combination of the both, of each of those, but how might that happen?

**MR. BUCHEN:** Sure, that's a good question. So it really -- I'd view it as a combination and include, so, not only would the Commission clearly, you know, you can suggest taking a look at that. We do have staff who monitor, but we also have professional financial consultants who would love to have our business and would be prompting us if the economic situation calls for a situation similar to what we experienced with the Great Recession that began in 2008, where we contracted with a professional financial consultant to leverage investment opportunities to ultimately provide more funding to education.

**COMMISSIONER MILLS:** Great, thank you. I think it would be interesting for us to consider at some point along the way, maybe showing some analysis of what greater risk might look like and kind of the risk-reward because I think anything that we can do to maximize our contribution to Education I think we need to be thinking about. So I'm not necessarily advocating for let's take more risk right now, but I think as we kind of look into the next year, if we could bake into our plans to create some sort of modeling or analysis of what that might look like for the Commission to consider, I think that would be really helpful.

**MR. BUCHEN:** Okay.

**CHAIRMAN AHERN:** All right, thank you. Does any other Commissioner have any questions to Nick regarding Action Item 8b? Okay, does any member of the public want to address the Commission at this time regarding Action Item 8b? Hearing none -- do I hear a comment? Okay, hearing none, do I hear a motion to approve Action Item 8b, the Lottery Investment Strategy and Investment Policy?

**COMMISSIONER STERN:** Motion to move.

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

**COMMISSIONER MILLS:** I'm sorry; I thought we were not voting on this. Are we voting on this?

**CHAIRMAN AHERN:** Yeah, we didn't vote on the

presentation that Nick gave in regard to the potential budget report that he gave, but this is an actual action item.

**MR. BUCHEN:** But, yeah, I'm sorry. So it is -- it still remains on the agenda as an action item, but as I explained, we'll be making some changes to the Investment Policy, so I'd prefer to take both of these actions at a future Commission meeting, so there shouldn't be a vote for today.

**CHAIRMAN AHERN:** Then I'll ask Commissioner Stern to withdraw his motion.

**COMMISSIONER STERN:** I withdraw my motion.

**CHAIRMAN AHERN:** Okay, and for Counsel, before I proceed, are we doing okay in this regard, or do we need to take any action?

**MR. ACEVES:** We are, Chair, this is just an informational item at this time. It will be presented to the Commission at a later hearing.

**CHAIRMAN AHERN:** Okey-doke. And on the subject line of the notes that I have, it shows 9b, so I don't know if that's correct, or it should be 8b, just to let you be aware of that.

**MS. TOPETE:** Thank you, Chairman. It should be 8b.

**CHAIRMAN AHERN:** Okay. All right. Moving on

to Action Item 8c, and let's hope it's an action item so I don't make mistakes. We'll have Roberto talk to us about a Request to Add One Position to the Internal Audits.

Roberto, are you alive and ready?

**MR. ZAVALA:** Yes, thank you, Chair Ahern, and good morning to you and all the other Commissioners.

**CHAIRMAN AHERN:** Good morning.

**MR. ZAVALA:** So I have for you for consideration Item 8c. It's a request to add one position to Internal Audits. As you know, the Lottery's Internal Audits Office is responsible for providing audit services, including coordinating all external audits of the Lottery. Since 2014, the Lottery has averaged 17 audits by external auditors by external auditors every year. Internal Audits has had to delay or postpone internal audits and other services to coordinate these services. Audit stands require the Lottery and specifically my office to coordinate all audit work to ensure adequate audit coverage and minimize duplicating audit efforts. My office has four auditors today who conduct internal audits and coordinate external audits as well. External audits require oversight to meet management expectations. An internal auditor that is working for me is assigned the responsibility today to coordinate activities as well as their own audit work. This increased items also includes scheduling background checks,

scheduling meetings, preparing status reports, reviewing, and responding to correspondence from either auditors or my colleagues and also, following up on audit findings as a result of the audits themselves. Currently, these audits, like I said earlier, these duties are being absorbed by my audit staff today, and this has caused some delays and postponing of regular audits that are planned throughout the year in my office. Some discussion: We're requesting this Internal Audit position. This position will be exclusive to external Audit work. This will allow my office staff to continue to focus on internal audit efforts. The increase in productivity and the workloads will be more predictable over time as a result. This hopefully will certainly become more effective and efficient in all audit activities. We are recommending that the Commission approve one additional audit position. The cost of this position will be \$120,000 per year. As a small note to my issue memo, we initially were thinking of bringing this forward back in March, but we are bringing it to you today, so therefore, there will be no cost to this current fiscal year as a result. And I'd be more than happy to take any questions at this time.

**CHAIRMAN AHERN:** Okay, do any Commissioners have any questions or comments regarding Action Item 8c?

**COMMISSIONER MILLS:** Chair Ahern, this is Commissioner Mills. I just have a comment for Roberto. As

Chair of the Audit Committee, I have a heightened sense of appreciation for all of the work that you and your team do there at the Lottery. I mean, not only are you managing your own workload of internal audits that you guys have identified are important to the organization, but you're also managing external internal audits coming in to your organization, and it's a lot, and it's important. This is really important work, especially as we move into our next strategic plan and really focusing on enhancing internal controls and education around internal controls and those sorts of things. So I think this position is an important addition to your team, and I hope it will be helpful in helping you guys stay focused on your own set of priorities that you guys have identified within the organization while also serving our external constituents and reviewers that are also coming in to review our work. So I appreciate you bringing this forward, and I hope it will be a helpful addition to your team.

**MR. ZAVALA:** Thank you, Commissioner Mills. I appreciate it. As a small note to everyone involved, the audits that happen on the Lottery are not discretionary by themselves; there's a lot of mandated work, and a lot of this work has to happen regardless of whether the Lottery has a say in the matter or not.

**CHAIRMAN AHERN:** And Roberto, I believe you do

in excess of 17 various audits throughout the year?

**MR. ZAVALA:** Absolutely. We are currently tracking today 13 external audits and also my own audits internally that I have to do, and again, to emphasize that the audit work here is being done by parties that are required by the Lottery Act. So it's not something that we have discretion over.

**CHAIRMAN AHERN:** It seems like it's a needed position. Are there any other Commissioners who have questions regarding Action Item 8c?

**COMMISSIONER STERN:** Commissioner Stern. I just want to echo Commissioner Mills' comments. Very important position, very strategic position and highly supportive as we drive towards operational excellence, so thanks for all of the information regarding this very important position.

**MR. ZAVALA:** Thank you.

**CHAIRMAN AHERN:** All right. Do I hear any member of the public want to address the Commission at this time regarding Action Item 8c? Hearing none, I'll entertain a motion for the approval of Action Item 8c, Request to Add One Position to the Internal Audits.

**COMMISSIONER MILLS:** So moved.

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

**COMMISSIONER STERN:** Second.

**CHAIRMAN AHERN:** We have 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?

**CHAIRMAN AHERN:** Yes. Okay, thank you very much. Motion passes.

**MR. ZAVALA:** Thank you.

**CHAIRMAN AHERN:** Moving on to Action Item 8d -- keep your camera on -- Draw Auditing and Review Services Contract Extension -- the great Roberto Zavala.

**MR. ZAVALA:** Thank you, Chair Ahern. I have for you today Item 8d. This is a Draw Auditing and Review Services Contract Extension. The Lottery's contract with Draw Auditing and Review Services will be expiring on July 31<sup>st</sup> of this year. These services are required by the Lottery Act. The contract option and funding is necessary to continue this important and critical service to the Lottery. As you know, the Lottery requires an independent contractor to witness and report on all Lottery drawings. The current contract with KPMG has been in place since

August of 2017. The contract is for three years, including two option years to extend. The current contract amount today is \$969,000. Because the contract expires on the 31<sup>st</sup> of July of this year, exercising this option will permit the Lottery to continue services through July 2021 with KPMG without interruption of services on this important item. Additional funding will be necessary to the tune of \$300,000. The additional funding is based on actual hours worked to date over the last three years. If not approved, the Lottery will have to undergo a Request for Proposal to seek another qualified firm. This would pose a risk to interruption of services in Lottery Draws. As a note, I wanted to make sure I mentioned that KPMG has been a very good partner with the California Lottery over the years. In fact, during this COVID-19 pandemic, they have been still coming into the operations at Headquarters on a daily basis to conduct their audit work, and this is a very necessary item for us to continue providing the services that are needed to have drawings in general, right? So I really want to applaud their effort in this area. So we have been very satisfied with their work, not only my staff but also the Draw management team that actually conducts the audit work themselves. So we are recommending that the Commission approve the option to extend the term by one year, from August the 1<sup>st</sup> of 2020 through July 31<sup>st</sup> of 2021 and add

funds of \$300,000. The total maximum dollar contract amount will then be \$1,269,000, and I'll take any questions that you might have.

**CHAIRMAN AHERN:** Okay, do any of the Commissioners have any questions for Roberto regarding Action Item 8d?

**COMMISSIONER MILLS:** This is Commissioner Mills. I have just a clarifying question. So, Roberto, you mentioned that if we don't approve this contract that it would be an interruption of service because we'd have to go through an RFP, and I just want to clarify that we're not not doing an RFP because we don't have time to do an RFP. It sounds like staff has made a conscious decision not to go through the RFP process because our current vendor is performing and either meeting or exceeding expectations on the contract?

**MR. ZAVALA:** Absolutely. That is correct.

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

**MR. ZAVALA:** Uh-huh.

**CHAIRMAN AHERN:** All right, do any other Commissioners have any questions or comments regarding Action Item 8d? Hearing none, 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, the Draw Auditing and Review Services Contract Extension?

**COMMISSIONER MILLS:** So moved.

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

**COMMISSIONER KIRTMAN:** Second.

**CHAIRMAN AHERN:** We have a motion, and we have multiple seconds. Who made the second?

**COMMISSIONER KIRTMAN:** That's me, Nate.

**CHAIRMAN AHERN:** Okay, Nate, thank you very much. We have a motion and a second. Is there any further discussion regarding Action Item 8d? Hearing none, 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?

**CHAIRMAN AHERN:** Yes. All right. Thank you very much. That motion passes. Moving on at blazing speed, Action Item 8e, Extension of Asian Market Advertising Services Contract. We call on Sharon Allen.

**MS. ALLEN:** And I am on mute. This is the (inaudible) of the great Roberto Zavala. It's a high bar. I am Sharon Allen, and I'm here to present the Extension of

the Asian Market Advertising Services Contract. The Lottery currently contracts with Time Advertising, or Time, for Asian Market Advertising Services. The existing term is set to expire this November. Staff recommends that the Commission approve an amendment to this Time contract to extend the contract term by one year. In 2015, the Commission awarded Time a five-year contract for Asian Market Advertising Services, with an option to extend for two additional one-year terms. The five-year term of this contract is from November 8<sup>th</sup>, 2015 to November 7<sup>th</sup>, 2020 and with an initial contract expenditure authority of \$21 million. Time is part of the roster of Lottery's advertising agencies that work together in partnership with Lottery marketing staff to develop cohesive marketing communication strategies and programs that effectively and authentically reach all segments of the California population. During the term of the contract, Time has consistently provided a high level of service in the development and execution of marketing and advertising programs directed towards Asian consumers. Extending Time's contract will ensure that the Lottery obtains the desired strategic direction and tactical execution to address this audience in a relevant and effective manner through November 2021. The Lottery estimates that approximately \$5.6 million remains of the current expenditure authority of \$21 million

and that that will be adequate to cover the marketing and advertising activities during this extension period. Staff recommends that the Commission approve an amendment to the Time contract for Asian Market Advertising Services to extend the term by one year with a new contract end date of November 7<sup>th</sup>, 2021. With no additional funds required, the maximum of authorized contract expenditure amount will remain at \$21 million. Are there any questions?

**CHAIRMAN AHERN:** All right, does any member of the Commission have questions for Sharon regarding Action Item 8e? Hearing none, does any member of the public want to address the Commission at this time regarding Action Item 8e? Hearing none, do I hear a motion to approve the Action Item 8e, the extension of the Asian Market Advertising Services Contract?

**COMMISSIONER KIRTMAN:** Motion to approve.

**CHAIRMAN AHERN:** We have a motion from Nate; is there a second?

**COMMISSIONER STERN:** Second.

**CHAIRMAN AHERN:** We have a motion and a second. Is there further discussion? Hearing none, 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?

**CHAIRMAN AHERN:** Yes. All right, thank you very much, Sharon.

**MS. ALLEN:** Thank you.

**CHAIRMAN AHERN:** Okay. Motion passes. We'll move on to Action Item 8f. It's a Public Website Contract Extension, and John?

**MR. SCHLUSSLER:** Good morning, Sheriff Ahern. Good morning, Commissioners.

**CHAIRMAN AHERN:** Good morning.

**MR. SCHLUSSLER:** This morning, I am here to talk to you about the one-year extension for our public website contract. Our current vendor is ICF Next, and they have been with, similar to the last couple of extensions that we discussed on the Commission meeting, they've been with us for five years, and their contract expires September 30<sup>th</sup> of this year. Over the course of this contract, most of the money that was spent was spent on the update of our current website to an ADA-compliant website that was mandated a year ago or so. Actually, it was about a year-and-a-half ago that we were mandated to have an ADA-compliant website. In doing so, we had to take off much of

the functionality that we had on our prior website. That functionality included the data for our Scratchers activities, how many Scratchers were remaining in each type of game, and many other features that were built over many years. So to make them ADA-compliant, we're asking that we extend this contract with our current vendor to take on the work that they've become skilled at with their ADA knowledge now and work on the Scratchers and some of the other features that we need to incorporate. The expectation is that over this year that we're extending this, we fully plan to develop an RFP or an RFO that will allow for other competitors to bid on the activities that we need to be done as an organization. We're looking for a long-term strategic partner that would allow us to focus on the deliverables of the needed changes and make sure that all of the changes are done timely and within the budgetary requirements. So, but, unfortunately, as Commissioner Mills has pointed out, the RFP process does take a while, and we've just finished our ADA compliance in October of last year, and we have not had an opportunity to complete all the different changes that we've done over the last several months and work on the RFP-RFO. So what we plan to do is work on that over the course of the next year and have an RFP-RFO done and issued to the public for having a new contractor in place by October of next year. And at this point, we're asking for a \$3 million

extension of one year for our current vendor of ICF Next. I will entertain any questions you've got.

**CHAIRMAN AHERN:** Okay, do any of the Commissioners have questions or comments regarding Action Item 8f?

**COMMISSIONER STERN:** This is Commissioner Stern. So, just a general comment here. So, as we're interfacing with different vendors that provide a variation of services, I think it would be helpful from a Commission packet perspective to break out the specific services that they'll ultimately provide on a particular project or contract, so taking anything technology-related, with technology being commodified, at first pass, you'd see that this is a pretty expensive request relative to just hosting a website. It's also my understanding that this really has to do with downstream integrations, tying in other features, the movement of data, et cetera. So I think just generally speaking, if we do have contracts or requests that do have a variation of services provided, giving more insight into what those services are I think would be helpful, but no further questions otherwise.

**MR. SCHLUSSLER:** Commissioner Stern, that is an excellent point, and you and I have discussed this previously, but you're absolutely right. The complexity of our website and the integration points with our current

gaming system are what caused the expense of \$3 million. It's not just, as you said, hosting a website. This has multiple data interfaces and multiple integrations with the systems that we have, and I agree with you, and as we move forward, I will definitely provide more details about the types of interfaces, integrations and processes that we plan to incorporate into the contract as we move forward.

**COMMISSIONER STERN:** Thank you.

**CHAIRMAN AHERN:** All right, thank you, John. Do any other Commissioners have questions or comments regarding Action Item 8f?

**CHAIRMAN AHERN:** Okay, hearing none, do I -- any member of the public want to address the Commission at this time regarding Action Item 8f? Okay, do I have a motion?

**COMMISSIONER STERN:** So move.

**CHAIRMAN AHERN:** We have a motion by Commissioner Stern. Is there a second?

**COMMISSIONER MILLS:** Second.

**CHAIRMAN AHERN:** A second by Commissioner Mills. Any further discussion? All those in favor say aye? 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?

**CHAIRMAN AHERN:** Yes. And so the motion passes, John, and thanks for the educational part of Request for Offer. I needed the schooling; thank you. All right. Moving on to Action Item 8g, the Strategic Plan and Fiscal Year 2020-21 Business Plan, and Jim?

**MR. HASEGAWA:** Yes. Good morning, Mr. Chairman and Commissioners.

**CHAIRMAN AHERN:** Good morning.

**MR. HASEGAWA:** I'm going to talk about the Strategic Plan and the Fiscal Year 2020-21 Business Plan. The Lottery creates a Strategic Plan that charts a course for a three-year period in order to determine how it will maximize contributions to our beneficiary, which is California public education, and the Annual Business Plan also does that. The process started with a review of the Lottery's business, with data including our sales, with playership, attitudes, comparisons with other US lotteries and a look at general business trends as well as shopping patterns and consumer behavior and preferences. With all this information presented in October and November of 2019, management and staff, the key staff in each Lottery

division, created an assessment of our internal strengths and weaknesses and external opportunity and threats. The Deputy Directors then convened together to develop the Lottery-wide consensus of this spot analysis. This led to the creation of key priority issues the Lottery must tackle in the upcoming years in order to be successful. The Executive Management Team then developed objectives for the Strategic Plan. These six objectives are submitted to the Commission for your approval. If these are approved, the next step will be to develop cross-division teams, develop ideas for tactics that will address these objectives and then evaluate each of these to determine which ones will generate the most dollars for California public schools. Turning to the next slide, I wanted to point out that in the three years after Fiscal Year 2015-16, the Lottery increased the amount it contributed to California public schools by more than \$300 million. By Fiscal Year 2018-19, a record amount was provided at more than \$1.8 billion. It did this by growing sales to record levels but also by improving its efficiency. Harkening back to Nick's comments, the percentage of sales used for our administrative expenses went from 12.11 percent in Fiscal Year 2015-16 down to 11.96 percent in Fiscal Year 2018-19. By law, the Lottery can spend up to 13 percent on administrative expenses, and any monies not used in the fiscal year go to education. And

when you turn these percentages into dollars, the administrative savings went from over \$55 million in Fiscal Year 2015-16 to over \$97 million in Fiscal Year 2018-19, so that shows a better example of how we became more efficient. Turning to the next slide, it looks at our sales during this period. During this three-year period, the Lottery sales grew by more than \$1 billion, going from more than \$6.2 billion to a record \$7.38 billion in Fiscal Year 2018-19. Our Scratchers product line accounted for nearly three-quarters of this sales increase, with a gain of more than \$800 million over those three years, and this was due to the success with the higher price-point tickets, our strategy to increase sales in the \$10, \$20 and a test of the \$30 games. Mega Millions also had a sizable gain over this period, and that's due to its game change that allowed it to generate much larger jackpots.

Turning to the next slide, I wanted to give some additional details on the sources of sales growth. Through the data that we collect in the Lottery's tracking study of California adults, we can estimate the number of players. In Fiscal 2018-19, more California adults bought a Lottery ticket in the past year compared to the prior years. We can take the number of players and divide it into the total sales for the year to calculate the average spending per player. So when we look at this \$1 billion growth in sales

with the three years ending in Fiscal Year 2018-19, it appears to have been attained by a slight gain in the number of players, as well as an increase in the average amount spent by a typical player. However, I do want to point out that even in Fiscal Year 2018-19, with this increase, the average amount a typical player spends is only about \$7.00 per week. Now, we used a similar methodology to estimate the playership and spending in these other top US Lottery jurisdictions -- New York, Florida and Texas, and that's because, along with California these lotteries represent the top four US lotteries in terms of sales and profits. Now, participation rates for playing any Lottery game are higher in New York and Florida compared to ours, but California and Texas have similar rates of playership. In terms of the average per-player spending, Californians spend less than the typical player in these three other lotteries. New York players have the highest estimated average spending at above \$11.50 per week. As such, there's room to increase the participation rate of playing the Lottery as well as the average player spending here in California. Now, in this business review, we analyze a wide variety of data, and for the record, we have provided the Commissioners a much greater sampling of this information that we collected than what I'm just showing today in this presentation.

And finally, I wanted to, on the next slide, show

just a sampling of the external studies that we used outside the Lottery industry. Overall, it included a review of the different generations, the cultural diversity in the State of California, consumer trends and changes in shopping habits. And the couple examples I pulled to show you today are, one is a multi-year study at the top from the Federal Bank of San Francisco, and it showed that for the first time in history, cash payments were not the number one method used in purchase transactions in 2018. It accounted for just 26 percent of all purchase transactions and below the 28 percent share that's garnered for the debit card. In our own research on the barriers to playing Lottery, it did also show that the need to have cash on hand is a barrier to buying tickets for a sizable number of California adults. The slide on the bottom shows an example about the growth of online purchases, and here it shows that it's no longer just limited to Millennials. All generations are participating in that trend.

Turning to the next slide, I wanted to start out the talk of the Strategic Plan with our overall goal, and it's because our overall goal is to provide more to education, and the Lottery has set its goal of contributing \$2 billion to California public education and doing that in a single-year period, the \$2 billion. Our current record, as I said earlier, is over \$1.8 billion, and our ultimate

goal, of course, is to become the top US Lottery in terms of revenue for its beneficiary. To attain this \$2 billion mark for public schools, Lottery sales would need to get to about the \$8.25 billion level, and the Strategic Plan that is built will outline the way for the Lottery to maximize its contributions to California public education and reach this \$2 billion goal.

The next slide, I wanted to briefly mention kind of how all the objectives and strategies in this plan really revolve around three things. First is adapting to the new normal from the pandemic. The retail industry, consumer behaviors have changed dramatically as a result of the pandemic and the stay-at-home orders, and all indications are that when the ease of restrictions occur, we won't be returning to life exactly as how it was in January and February, and it'll be a new normal when it comes to retailing in terms of consumer behaviors and consumer preferences.

The second theme revolves around transforming the Lottery, transforming the Lottery into a mature organization. It's been around for 34 years, and we need to have very standardized processes, procedures and controls that are needed in a mature organization rather than a start-up one. But at the same time, we do want to take advantage of technologies to become more efficient and

effective as well as being able to respond nimbly to business deeds.

The third theme deals with building trust and confidence among stakeholders like the Legislature, the education community, as well as the public in general. That's critical for any business but more importantly for ours in the sense that we are a public institution. So moving on to the next slide, it will be talking about the various objectives, but before I talk about all the objectives, I want to talk about the sources of our sales and profit growth. So how do we maximize contributions to public education? When you think about it, there are three possible broad strategies to do so that would apply not only to the Lottery but to any company or any business. You can attract new players, people who currently don't buy Lottery tickets. You can increase spending from existing players who might play very infrequently, and finally, you could increase spending from your core, more loyal players. What we undertook was we looked at various scenarios and combinations of these and looked at what the potential revenue would be from these scenarios and what would be the costs to attain that? And that would lead what strategy or what direction would most enable us to maximize the dollars going to public schools. And in doing so, we found that the contributions are maximized with growth primarily increasing

spending from existing players that are casual players -- these are people who play very infrequently -- and to a certain extent, but by a much lower percentage, increasing spending among our core players. You might recall earlier I talked about how spending is still relatively modest among our current players. So you might recall that currently, the average player in California spends about \$7.00 per week, so that's still a relatively modest amount. And as discussed earlier, our next step in this process would be to build a technical roadmap, and that way, it will allow us to fine-tune our goals for what the Lottery will contribute to public education.

And now turning to the six objectives. This being the first year of this Strategic Plan, the Annual Business Plan will contain the same six objectives as the Strategic Plan, and under each objective, I'll also discuss some of the tactics that'll be employed as part of the Fiscal Year 2020-21 Business Plan and were included in the budget expenses that Nick talked about.

Our first objective is to modify our operations to ensure the health and safety of our employees, our retailers and our players, trying to recover sales lost during the pandemic. The most important element of this is being able to restore the volume of tickets that can be shifted out of the two distribution centers while still prioritizing the

safety of those workers by having one individual staff the station instead of two, as was the practice prior to the pandemic. So implementing these solutions are critical for this plan. Some of this includes adding workstations in the Northern Distribution Center, et cetera. I think some of those things Nick talked about in his presentation. What this will do, though, is it will allow us to return to a more normal Scratchers product plan. The proposed plan for Fiscal Year 2020-21 assumes resuming normal capacity in the Distribution Centers before the end of the calendar year in 2020, and as such, the plan has five game launches in the first six months of the year compared to, typically, more monthly introductions that were in place prior to the pandemic. In total, the 2020-21 Scratchers plan would have a total of 48 new games being launched, and this compares to a plan of 52 games before the pandemic hit. In this objective, there are also long-term considerations. You know, the pandemic gives us all a good chance to really look at how we conduct our operations and consider how we might change operations, not only for the health and safety of our employees, but also how to be most efficient and effective, or how we adapt to changing times or adopt new technologies.

The second objective is to revisit retail strategies, as the Lottery needs to adapt to new consumer preferences resulting from the pandemic. Another example is

that consumers have changed even their grocery store shopping habits, and as you are aware, supermarkets and grocery stores are some of our larger retailers in the network. A study from the Supermarket News said that 50 percent of consumers are either buying more of their groceries online or started buying them online for the first time during the pandemic -- in just a couple-month period, a 50 percent increase in that type of behavior. And this also includes where you select items online but then do curbside pickup. So even before the pandemic, the types of brick-and-mortar stores that were seeing growth were different from the types of places that the Lottery typically sells its tickets, and the pandemic really has accelerated the retail trends that were already in place, and so that's why the Lottery really needs to adapt to this new reality. For the upcoming fiscal year, some of the tactics include, we concluded, conducting consumer research studies to better understand this new reality of retail and shopping preferences by our consumers, so that we can develop a long-term strategy. We'll need to evaluate and assess all potential options to adapt to this new normal in terms of retailing shopping, and this will include the need to clarify and to clearly understand what tactics would not currently fit under our current technology restrictions in the Lottery Act. In the upcoming year, we also still need

to look at the types of brick-and-mortar stores that would be recruited over the next several years. An example is Walmart. Walmart and stores of that type of classification we currently don't operate in; however, Walmart recently became a retailer in some other US lottery jurisdictions. The third objective deals with growing Draw Game sales, particularly jackpot games and HotSpot. In the short term, it's I important because these are the games that were hardest hit of all Lottery products, and so it's determining which tactics we can employ to regain those sales -- such things as advertising in those areas, particularly with jackpot alerts and signage that, among other tactics being developed by sales and marketing, and also the Lottery's largest project, the conversion of the gaming system to the latest Aurora platform, will aid in these efforts. It'll allow additions or changes to our Draw Games to be done more easily; it'll also allow for new and different ideas to be developed and implemented. In terms of long term, there's a need to increase sales of these games, as currently, players of Draw games spend significantly less on those products than Scratcher players spend on Scratcher tickets, and so there's a great potential in the jackpot games and HotSpot area. And what we'll start in this upcoming fiscal year is really creating a team across all divisions led by Sales and Marketing, and really to brainstorm tactics aimed

at increasing either the frequency of purchase occasions, greater cross-play of different Draw games, boosting the transaction size of existing purchases, those areas, and then evaluate each idea to determine the revenue potential, which objective or measure will it solve, the time it takes to introduce the concept and the cost in staff and resources associated with (inaudible) introduction. And again, this process will allow us to identify the top tactics to grow Draw game sales, ensuring that we maximize the contribution to education, because we've taken into account both revenue potential as well as the cost to introduce it, as well as the time it will take to introduce that product.

Moving on to the fourth objective on the next slide, it's to defuse the barriers of play by changing consumer perceptions. Most of the reasons that people do not play the Lottery and the reasons that infrequent players don't play more often tend to be based on the negative associations these individuals have on Lottery games and/or the Lottery organization. It will take time to shift people's perceptions, so it's a long-term proposition, and that's why the majority of our sales gains will be coming from increasing spending among our casual players. However, this effort will begin this upcoming year. In Fiscal 2020-21, the first tactic in this area will be launched, which is a change to the way we advertise Scratchers, to emphasize

the fun and entertainment value of playing these games. For the tactics and strategies in this area to not significantly increase our marketing costs, a project to directly communicate to our core players is essential. The Lottery has many owned channels to do this -- our mobile app, our website, our 2nd Chance database, and so the goal is to deliver relevant and customized information to interested and signed-up players through our 2nd Chance database or our mobile app, and this will make it very efficient to reach these individuals, allowing our marketing expenditures moving towards changing the perceptions of others to be handled without increasing dramatically the marketing costs.

The fifth objective is to better inform the public and the stakeholders about the Lottery, and this is the first step in building that trust we talked about. You know, legislators, the education community, the general public, they really don't hear much about the workings within the Lottery. They don't hear about our contributions to public education, how we conduct our drawings with the utmost security and integrity, the funds going to local businesses who sell Lottery tickets, because retailers earn vital commissions and bonuses. So the specific tactical plan has yet to be built and relying on expertise from our Public Affairs and Communications group. However, one of the first steps that will involve us is communicating to our

retailers, employees, and our most loyal players, those participating in our 2nd Chance program, and that's because we find that these are the people who would be asked questions when a broader communications effort is developed and employed, and communicating to our retailers, our employees, our most loyal players is a very cost-effective and cost-efficient means.

And then the sixth objective is transforming the corporate culture in the Lottery organization, and this objective will have many facets over the next several years. Its goal is to transform the Lottery into an organization that is more mature with better processes, procedures and controls, where all Lottery staff make their decisions around what will maximize our funds to public education, that takes advantage of technology to be more efficient and effective, but yet having an organization that is still nimble to react to changing business conditions. You know, to make this type of transformation really requires it to be part of the Lottery DNA, and that means it ultimately comes down to the people at the Lottery to really make this change in our culture. So we want to change the focus of individual employees from a divisional perspective to the overall organization's goals, as well as how does this specific action impact our contributions to public schools, changing how it makes decisions with an early goal of

standardizing the process and the documentation of all these decision-making efforts across all divisions. And I described a little bit the whole Draw Game Initiative and how we plan to go through that as an example of how we will firm up our decision-making processes and more importantly the documentation of those decisions. And also, finally, then, this will require the organization to really invest more in its people, training and development, better succession planning and so forth, because ultimately, as I said earlier, it comes down to the people at the Lottery are the ones that really will make this change a reality. So those are the six objectives and some of the tactics that will be employed, as well as some of the processes. I do want to reiterate these are at this stage really just high-level objectives, and as I stated in the Process slide, really, the next step is to develop that tactical roadmap, and this will require us to take over the next six months to teams focusing on different issues to come up with ideas, evaluate them, vet them and really understand how these initiatives will maximize contributions to public schools. And with that, I can take any questions or comments.

**CHAIRMAN AHERN:** Okay, so I think the recommendation is that Lottery staff recommends that the California State Lottery Commission approve the proposed Strategic Plan and Fiscal Year 2020-21 Business Plan. And

are there any Commissioners with any questions for Jim?

**COMMISSIONER MILLS:** Hi, Chair Ahern, this is Commissioner Mills. I have a clarifying question, just to make sure I understand what we're being asked to approve. So, Jim, you presented three key themes and then six objectives, and so is that explicitly what we're being asked to approve?

**MR. HASEGAWA:** At this time, the explicit recommendation is for the six objectives and also the source of our sales and growth that I talked about. So, and the three themes really kind of encompass those six objectives. The key thing are the six objectives by which we will then build the tactical roadmaps.

**COMMISSIONER MILLS:** Okay. Okay, that's helpful. So even though we're not being asked to approve the key themes, I want to offer a friendly addition to those themes, and you said it throughout your presentation, so no doubt that it's there, but if the key themes are kind of the overarching themes of what people are going to focus on on the objectives, I think it should explicitly say that a key theme of this plan is our relentless focus on our mission and purpose to maximize our contribution to education. So I throw that out there for your consideration, because I think it is -- you said it throughout, but to have it explicitly in your key themes so that it is front and center as people

are developing tactics and each of those objectives I believe is really important, and I think it is explicitly stated in the corporate culture piece, but that's stuck at the very end, so I would just move it back to the top and make sure that it is front and center and super-explicit.

**MR. HASEGAWA:** And that's why I had -- it's the slide there introducing the whole Strategic Plan is our overall goal of the \$2 billion figure because that is the centerpiece; we have a goal to contribute \$2 billion to California public schools.

**CHAIRMAN AHERN:** And I see all the (inaudible) it said -- Alva, do you want to make a comment?

**MR. JOHNSON:** No, I would just echo what's already been said. Education is our mission. It's been our mission for 35 years. You know, we do talk about it, but we need to talk about it more to continue to build confidence in our stakeholders and partners, and so we will definitely look for opportunities, as Commissioner Mills is suggesting, to make sure that our essential function of providing funds to education is front and center. It's really important, and it's going to have added emphasis as we go forward. Thank you.

**CHAIRMAN AHERN:** All right, thank you Jim. Thank you, Alva. Do any other Commissioners have any comments or questions regarding Action Item 8g? Hearing

none, does any member of the public want to address the Commission at this time regarding Action Item 8g? All right, hearing none, I'll entertain a motion to approve Action Item 8g, Strategic Plan and Fiscal Year 2020-21.

**COMMISSIONER MILLS:** So moved.

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

**COMMISSIONER KIRTMAN:** Second.

**COMMISSIONER STERN:** Second.

**CHAIRMAN AHERN:** We have a motion and a second and a second. All right. So 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?

**CHAIRMAN AHERN:** Yes. All right, thank you very much, Jim.

**MR. HASEGAWA:** Thank you.

**CHAIRMAN AHERN:** Very well done. Okay, the motion passes. We're looking at the Commissioner General Discussion, Item Number 9, next item on the agenda. Do any

of the Commissioners have anything they'd like to bring up at this time? Okay, hearing none, I'd like to note that the Commission will elect its Chairperson and Vice-Chairperson at the June Commission Meeting. A Commissioner can self-nominate another Commissioner to serve in either role, so please direct your nominations to me, and I'll get them to the Lottery staff and Alva for review. Next item is Item Number 10, Scheduling Next Meeting. We have tentatively scheduled a Commission meeting on June 25th, 2020 in Sacramento. If COVID allows and the river don't rise, I think, we'll be up there in Sacramento. Any comments on the meeting?

**COMMISSIONER MILLS:** Chair Ahern, this is Commissioner Mills. I would just like to request that we maintain a remote option if there are folks who may not be comfortable yet being in person, that there be a remote option, both for Commissioners and the public to participate in our meeting this summer.

**CHAIRMAN AHERN:** Absolutely. Great idea. We'll be flexible and willing to overcome and adapt. Well said. Okay? Alva, are you good with that?

**MR. JOHNSON:** Yes, we'll make it work. Thank you.

**CHAIRMAN AHERN:** Okay. Item Number 11 is Public Discussion. Comments are limited to three minutes.

I did not see any listed comments to me. Elisa, do we have anybody who's submitted questions?

**MS. TOPETE:** Nobody submitted questions before the meeting.

**CHAIRMAN AHERN:** Okay. Thank you very much. I'll give a ten-second warning.

**MR. SCHLUSSLER:** I'd like to just let the people who are on the call know that to unmute themselves, they need to press \*6 to do a Public Discussion agenda item.

**CHAIRMAN AHERN:** And I think we've allotted enough time for that public discussion comment, so thank you very much, John, for taking care of the IT world, and kudos to the great number of staff at the Lottery for making this all possible, keeping us all safe and comfortable in our own little shelter-in-place areas. So, Alva, your team did a fantastic job.

**MS. CHAVEZ:** Hello.

**CHAIRMAN AHERN:** Go ahead.

**MS. CHAVEZ:** I'm sorry; I just didn't know if the public was allowed to make comments at this time or questions.

**CHAIRMAN AHERN:** Yes, you bet. You have to identify yourself, and we'll limit you to three minutes for your comments, so your name?

**MS. CHAVEZ:** Thank you very much for taking my

call. My name is Kathy Chavez. I am a concerned member of the public who has been following the numerous stories in the media about the California Lottery over the last few years. I understand the Attorney General investigation regarding the Lottery that was requested by former Governor Jerry Brown in 2018 has concluded. Can the California Lottery provide information on the results of the AG investigation? In an effort to demonstrate transparency, I was wondering, can the Lottery issue a statement on the Lottery website regarding the results of the investigation? Thank you.

**CHAIRMAN AHERN:** All right, thank you for your comments, and I believe if Counsel is supportive, we can acknowledge your comments but aren't able to address them. Is that correct, Counsel?

**MR. ACEVES:** That is correct, Chair.

**CHAIRMAN AHERN:** Okay. So, thank you very much. Is there anyone else in the public who has any comments for us at this time? Okay, once again, Alva and all the Lottery staff --

**MS. GONZALES:** Hello?

**CHAIRMAN AHERN:** Did I hear something?

**MS. GONZALES:** Hello, yes. Hi. I was wondering if I was allowed to speak?

**CHAIRMAN AHERN:** Okay. Can you identify

yourself and give us your name?

**MS. GONZALES:** I am Crystal Gonzales, and I am a concerned member of the public.

**CHAIRMAN AHERN:** Okay, please. We'll give you three minutes; go ahead.

**MS. GONZALES:** Okay. I actually am a retailer, and I had my store broken into on three separate occasions with major damages to my building where they stole my Lottery tickets. I was wondering when is the California Lottery going to help retailers, like the other states with the Lottery? For instance (inaudible) Lottery provides scanners for the retailers to delete their tickets at the end of the business day. So, I was wondering what the next step is for you guys?

**CHAIRMAN AHERN:** Okay. During public discussion, we can take comments, but it's very difficult for us, under the Brown Act, to respond to your item specifically because it's not agendized. So, your comments and questions can be submitted directly to people at the Lottery, and the Lottery people will direct it to the person most appropriate to respond to your specific question.

**MS. GONZALES:** Okay, thank you very much.

**CHAIRMAN AHERN:** And is there anyone else up for public discussion? Four, three, two, one. Okay, thank you very much. Again, Alva, Lottery staff, fantastic work.

Difficult times. COVID-19 has slowed us but won't defeat us, so keep on the path, stay safe, everyone be virus-free, and we're adjourned.

**MR. JOHNSON:** Okay, thank you.

**COMMISSIONER MILLS:** Thanks, everyone. Bye. Stay safe.

**COMMISSIONER KIRTMAN:** Bye, friends.

(End of Recording)

**(MEETING ADJOURNED)**

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