

CALIFORNIA STATE LOTTERY COMMISSION
Minutes – March 30, 2020
Sacramento, California

1. Call to Order

Chairman Gregory Ahern called the special meeting of the California State Lottery Commission to order at 11:02 a.m. The meeting was held via Microsoft Teams and teleconference.

2. Roll Call

Chairman Ahern asked for roll to be taken. Director Alva Johnson took the roll of Commissioners.

Commission Members Present:

Chairman Gregory Ahern
Commissioner Peter Stern
Commissioner Keetha Mills

Commissioner Members Not Present:

Commissioner Nathaniel Kirtman

CSL Staff and Presenters:

Alva V. Johnson, Director
Fernando Aceves, Chief Counsel
Nicholas Buchen, Deputy Director of Finance
Sharon Allen, Deputy Director of Sales and Marketing
Elisa Topete, Assistant to the Commission

3. Findings – Special Meeting Requirements

Chairman Ahern called on Nicholas Buchen, Deputy Director of Finance, to summarize the findings necessitating the special meeting. Mr. Buchen indicated that immediate action was necessary to protect the public interest. The specific facts constituting the pending harm to the public interest are as follows:

Fact Number 1 - On March 25, 2020, the Powerball® Product Group, of which California is not a voting member, voted to reduce Powerball's starting jackpot amount from \$40 million to \$20 million and to reduce the minimum required increase between draws from \$10 million to \$2 million with these changes commencing after the next Powerball grand prize win. The changes were made as a result of the changes in consumer and retailer behavior resulting from the COVID-19 health crisis and to ensure Powerball continues to support good causes in all 48 United States lottery jurisdictions in which the game is sold.

Fact Number 2 – On March 27th, 2020 the Mega Millions® Consortium of which California is a voting member, discussed conducting similar changes to the Mega Millions game because of the change in consumer and retailer behavior resulting

from the COVID-19 health crisis. Decreasing sales of this game poses a risk of having grand prizes that are not supported by sales. The Consortium is currently assessing the situation on a draw by draw basis. It has asked for the member state lotteries to be ready to take swift action to adopt changes to both the starting jackpot amount and the minimum required increase between draws should the Consortium vote to make the change.

Fact Number 3 – Changing the starting jackpot amounts and minimum increases between draws for both games would help the California Lottery’s mission to maximize supplemental funding to education. The unprecedented impact the COVID-19 health crisis is having on sales means each game is in imminent danger of having insufficient sales to support the advertised jackpot. This would cause the Lottery’s overall prize expense to be higher and the Lottery’s contribution to education to be lower, all else being equal.

Fact Number 4 – We called this special meeting to discuss necessary changes to the California Lottery Regulations as a result of the current and impending rule changes to the Mega Millions and Powerball games. By acting now to conform to these current and upcoming changes, we ensure that there is no disruption to the Mega Millions and Powerball games, and eliminate any potential liability from any discrepancies between the regulations of the California Lottery and the Mega Millions and Powerball regulations and the official rules for both games.

Fact Number 5 – As the draws for both of these games occur twice per week, it is important for the Commission to meet within eight hours rather than the ten-day notice period because the Lottery would like to reduce any potential exposure and reduction in supplemental funding by revising its regulations to adhere to any new changes in jackpots and minimum increases, which could occur for any of the upcoming draws in Powerball and Mega Millions. The COVID-19 health crisis is creating a substantial financial hardship to the Lottery and action must be taken to mitigate the impact and maximize funding for education.

Commissioner Mills inquired about how the change will impact the Lottery’s contribution to education. Mr. Buchen responded that if the change is not made and sales continue to drop, the Lottery would be at risk of having advertised jackpot amounts that sales cannot support. The Lottery would be paying out a higher prize expense to winners, therefore less funding would be going to California public schools. Mr. Buchen stated that if the consumers don’t react too adversely to the decreased starting jackpot and the decreased minimum roll increase, then there should be no substantial impact to the prize expense for either of the games.

Ms. Mills stated that she has learned that higher jackpots are what typically drive sales and asked if it was anticipated that sales will decrease by lowering the jackpots but that the changes were needed to ensure the prizes were supported by sales. Mr. Buchen agreed the changes were necessary to ensure prize amounts were supported by sales. Mr. Buchen further noted that the Lottery has a

considerable consumer base that plays essentially regardless of the jackpot amount. However, it will take several rolls longer to get to a higher jackpot amount because of the lower starting jackpot amounts and the lower minimum rolls.

Ms. Mills sought more information on how the Lottery was encouraging responsible gaming in these difficult financial times? What changes, if any, have been made to the marketing plan? Sharon Allen, Deputy Director of Sales & Marketing, responded that the Lottery has paused a lot of the jackpot alerts to not drive people into stores. The Lottery is balancing the order from the Governor to stay in place and at home, but also communicating that the games are still happening.

Ms. Mills further inquired if the Lottery has done any financial modeling around what affects the COVID-19 crisis will have both on the Lottery's operations and the expected contribution to education? Mr. Buchen maintained that the Lottery is running several different scenarios, however, this is difficult because no one can definitively predict when the Lottery sales will rebound. In an effort to minimize the impact to education, the Lottery Executive Team is in the process of trying to reduce the discretionary expenditures for administrative costs for the remainder of the fiscal year. The Lottery is trying to be responsible while still maximizing supplemental funding to education.

Ms. Mills indicated that the Lottery provisions that needed to be modified were not required to be in the regulations in the first place and asked if it was an oversight. She also inquired how the initial dollar amounts were determined and why the it was important to include them in the regulations? Mr. Buchen stated that the Lottery's own jackpot game, SuperLOTTO Plus[®], does not specify in the regulations that the jackpot starts at \$7 million and that the minimum rolls are \$1 million. The change to Powerball and Mega Millions would make it consistent with the Lottery's own draw game. There was no oversight to include the specificity for both multi-state game rules.

Commissioner Stern stated that earlier it was reported that there was a decrease of 24 percent in sales on Saturday and requested specificity on what the break point would be as it relates to the higher prize expense – how much will sales ultimately have to drop before the Lottery is in the red? Mr. Buchen responded that for Mega Millions in particular, when the jackpot gets hit past the minimum roll requirement, the actual payout to the grand prize winner is based on the amount that sales have supported. The bigger risk is when the jackpot is hit and resets. With the jackpot currently starting at \$40 million, along with a substantially decreased level of sales, it will take a lot longer for that jackpot to become supported by sales.

Mr. Stern asked if there was a forecast or indication in the next couple of weeks of what a decrease in a payout would result in a decrease in revenue. Mr. Buchen stated that staff is looking into several different recovery points that will factor into what the sales projection and resulting expenditures and contribution to education

will all look like under the different scenarios. When available, the data would be shared with the Commissioners.

Commissioner Mills made the motion to approve the Findings; seconded by Commissioner Stern. The Findings passed unanimously (3-0).

4. Action Items

a. Multi-State Game Changes

Sharon Allen, Deputy Director of Sales and Marketing, presented a request to adopt amended regulations for the Mega Millions and Powerball games, which would become effective immediately, and a minor technical clean-up to correct a numbering error that was identified in section 3.0. The California State Lottery Act does not require the Lottery to include information regarding starting jackpot amounts or minimum increases per draw in its regulations. This information is already included in the Mega Millions Official Game Rules and Powerball Group Rules. Lottery Regulations specifically reference those documents stating that these rules govern the administration and operation of the Mega Millions and Powerball games. Removing subsections 3.7.5.C(1)(c) and 3.8.5.C(1)(b) will eliminate unnecessary sources of conflict between Lottery Regulations, the Mega Millions Official Game Rules, and the Powerball Group Rules. It would also eliminate the need for future regulations changes when starting jackpot amounts and minimum increases are adjusted, allowing for an efficient return to standard operation of the Mega Millions and Powerball games once the current health crisis is resolved.

Commissioner Mills asked if staff completed a thorough review of the regulations to make sure there were no other items that needed to be adjusted based on the Lottery's current situation. Ms. Mills also asked if the Lottery anticipates any other changes in regulations that may need to occur as a result of the COVID-19 crisis.

Ms. Allen stated that the Lottery's Legal team did a thorough review of the regulations and that no additional changes were anticipated

Commissioner Stern made the motion to approve Action Item 4(a); seconded by Commissioner Stern. The findings passed unanimously (3-0).

5. Public Discussion

Chairman Ahern sought public comments or questions. Paulina Vasquez, Lottery Sales Field Representative and Union Steward, spoke of her concern regarding the safety of the Lottery's sales representatives, retailers and the public during the pandemic. Director Johnson stated that his staff is working 24-7 to address the needs of the Lottery's team members and communities.

6. Adjournment

Meeting adjourned at 11:34 a.m.