

# CALIFORNIA STATE LOTTERY COMMISSION

Minutes – March 25, 2021

Sacramento, California

## 1. **Call to Order**

Chairman Gregory Ahern called the meeting of the California State Lottery Commission to order at 10:00 a.m. The meeting was held via Microsoft Teams and teleconference.

## 2. **Pledge of Allegiance**

Chairman Ahern led the Pledge of Allegiance.

## 3. **Roll Call**

Chairman Ahern asked Elisa Topete to call the roll.

Commission Members Present:

Chairman Gregory Ahern

Commissioner Peter Stern

Commissioner Nathaniel Kirtman (Joined meeting at 10:11 a.m.)

Commissioner Keetha Mills

California State Lottery staff and presenters:

Alva V. Johnson, Director

Fernando Aceves, Chief Counsel

Jennifer Burkhart, Business and Acquisition Services Branch Chief

Jim Hasegawa, Deputy Director of Business Planning

Jennifer Chan, Deputy Director of Information Technology Services

Sharon Allen, Deputy Director of Sales and Marketing

Elisa Topete, Assistant to the Commission

## 4. **Consider Approval of the Agenda**

Chairman Ahern asked if any of the Commissioners wanted to make changes to the March 25, 2021 proposed agenda. Commissioner Keetha Mills made the motion to approve the agenda and was seconded by Commissioner Peter Stern. The agenda passed unanimously.

## 5. **Approval of the Minutes**

Chairman Ahern asked if there were any additions or corrections to the January 28, 2021, minutes. Commissioner Stern made the motion to approve the minutes for the January 28, 2021, Commission Meeting and was seconded by Commissioner Mills. The minutes passed unanimously.

## **6. Informational Items**

### **a. Director's Comments**

Director Alva Johnson provided estimates of Lottery sales through March 13<sup>th</sup>, coming in over \$5.77 billion, which is 20% higher than Lottery sales over the same time period last fiscal year. A key driving force behind this growth continues to be Scratchers<sup>®</sup> sales, which are based on ticket distribution to our retailers, minus the returns from those retailers; the same methodology used in the Lottery's financials. Scratchers distribution sales through the first 8½ months of this fiscal year are over \$4.35 billion; which is 18% ahead of goal and 22% over last fiscal year through mid-March.

Due to January's large jackpots, the multi-state games have year-to-date sales close to \$700 million. Both Powerball<sup>®</sup> and Mega Millions<sup>®</sup> have sales this year over \$300 million. SuperLotto Plus<sup>®</sup> has brought in close to \$170 million so far, this fiscal year; coming in 3% above its goal. It is the only game to still have sales lower than last fiscal year, which is largely due to lower jackpots. Chair Ahern asked how many millionaires were made from SuperLotto Plus in one year and Director Johnson responded that four players became millionaires.

The Daily Games, which include Daily 3, Daily 4, Fantasy 5, and Daily Derby<sup>®</sup>, continue to see strong sales this fiscal year. Combined, these games are running 14% above goal and 11% higher than last fiscal year's sales through this time. In February, Fantasy 5 saw its highest sales week since the game's inception in 1995. Hot Spot<sup>®</sup> sales through March 13<sup>th</sup> are close to \$250 million, which is 12% above goal and 6% higher than last fiscal year. Hot Spot also saw record sales in February with almost \$7.5 million in just one week.

In terms of the Lottery's contribution to education, the figures are based on the Lottery's monthly cumulative financial sales report through February 28<sup>th</sup>. Estimated contributions to education through the first eight months are over \$1.2 billion.

### **b. Procurement Program Overview Presentation**

Branch Chief of Business and Acquisition Services, Jennifer Burkhart, provided an overview of the Lottery's procurement program. In order to maximize funding for education, Ms. Burkhart went over some key activities that included a review of all contract and service agreements to determine if they are still needed; identified what services can be performed by Lottery staff; considered bulk purchasing and assessed alternative approaches. Other key items under review will be service level agreements; procurement processing timeframes; policy establishment, program deficiencies identified in previous audits; analysis of Epicor implementation and updating and revising the Lottery's regulations. As far as accountability, Ms. Burkhart hopes to identify procurement roles, responsibilities

and employee training. She will be conducting spot and annual reviews, while working collaboratively with internal and external audit entities.

For internal transparency, staff will be updating procurement program and desk manuals. They will also be disseminating procurement processes and resources on the Lottery's intranet, as well as publishing procurement training modules on the Lottery's Learning Center. Staff will work on annual procurement plans and will focus on communicating early and often. As far as external transparency, the Lottery will circulate current and upcoming solicitations on the Lottery's website and improve on disclosures of evaluation criteria in its solicitation documents. Staff plans to establish partnerships with community and trade organizations to increase awareness of goods and services procured by the Lottery and advertise solicitations in a variety of ways so that those who want to bid will know where to find opportunities.

Commissioner Mills expressed her appreciation for the procurement information that was provided to not only the Commissioners, but to the public. She stressed the importance of the Lottery's level of diligence and transparency. Consequently, the Commissioners are confident approving contracts through this robust and controlled process that ensures the Lottery is maximizing its contribution to education. Chair Ahern asked if there were problems surrounding the state requirements for procurement compared to the Lottery's requirements for procurement. Specifically, Chair Ahern asked if items were received on a timely basis. Ms. Burkhart stated that the Lottery has a little more flexibility than other state departments and staff does a good job planning accordingly if delays are anticipated.

#### c. Optimal Prize Payout Study

Deputy Director of Business Planning, Jim Hasegawa, provided an overview of the Optimal Prize Payout Study conducted by Dr. Justin Adams of Encina Advisors. Mr. Hasegawa provided a background on a prior study that was done in 2009 to analyze the relationship between prize payout and sales and profits. The modelling used ten years of industry data and key findings showed states with higher payout had not only higher sales, but greater contributions to their beneficiaries. The study projected what would happen if California boosted its payout. The report estimated 62% payout maximizes contributions to California public education.

In 2020, the Lottery commissioned a new study to update the prior analysis and determine the current optimal prize payout rate. The first step of the study was the econometric modeling to estimate impact of various factors including prize payout on per capita sales. The second step was to calibrate this national model for California. The third was to use the California model to determine where payout maximizes contributions to education.

Commissioner Stern asked if staff learned any valuable lessons from a go-to-market perspective, in terms of marketing and sales spending. Mr. Hasegawa stated that this particular study did not intend to determine the optimum level of marketing spend; this would require a separate study. The Lottery does have media analytics and econometric modeling completed to assist staff in optimizing the amount of marketing spend.

Commissioner Mills asked if the consultant could run a side-by-side comparison to clearly see the difference between what the contribution to education would be by maximizing prize payouts, versus what the contribution to education would be by forcing this proportionality calculation. Mr. Hasegawa stated that if the Lottery had to stick to a strict proportionality, it would have to maintain the current rate of prize payout and would stabilize more at the contribution levels. Ms. Mills added that her prediction would see the contributions flat-line or decrease.

Ms. Mills asked if staff plans to share the study findings with the California State Audit Division and with colleagues at the Capitol to help further educate and clarify the findings. She also asked if there was a policy on the appropriate timing for updating this study and if staff has looked at how often other states are doing these types of studies. Mr. Hasegawa stated that not all jurisdictions do this type of research, so there are no established 'best practice' procedures relating to timing of updates. If the database is expanded in terms of having a more variation in the Lottery's prize payouts, it would ultimately require not only internal staff, but also a consultant to understand where that optimum rate lies, as modeling can only look at behavior in the past and extrapolate from that data. Given that there is ten years of data, it would make sense to do the study again in around five years.

Director Johnson stated that the State Legislature introduced legislation to require the Lottery to do a study about every five years, which staff is monitoring. Staff provided a reply to the California State Auditor in the Lottery's one-year response to the original report. The response explained our analysis and interpretation of the proportionality question raised by the State Auditor. Staff will look for opportunities to provide copies of the report to legislative leaders in hopes of providing a better understanding of the issue, as well as the Lottery's interpretation of the audit. It is important that the public understands that one of the Lottery's top priorities are transparency and accountability.

## **7. Consent Calendar**

## **8. Action Items**

### **a. Communications Effectiveness Tracking Study Services Contract Award**

Deputy Director of Business Planning, Jim Hasegawa, requested Commission approval to award the Communications Effectiveness Tracking Study Services contract to Alter Agents, with an effective Date of May 1, 2021. Using an

independent full-service market research firm, the Lottery conducts continuous studies to satisfy several requirements set forth by the Lottery Act.

Commissioner Mills expressed the importance of these studies to assist in the short-term and long-term planning of the Lottery's decision-making process and asked how the Commissioners would be informed of staff's plan. Mr. Hasegawa stated that the large amount of data is used in many decisions pertaining to the Lottery's Strategic and Business Plans. Additionally, marketing decisions use much of the tracking study data in their planning process. Information on player segments – frequent players, core players versus casual players and how they have changed over time are also derived from this study.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(a). No one came forward, so he proceeded to the motion.

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

b. Addition of Funds to the Epicor 10 Financial System Contract

Deputy Director of Information Technology Services, Jennifer Chan, requested Commission approval to add funds to support a project schedule extension for implementation of the Epicor 10 financial system upgrade and supporting applications. These funds would support moving the project go live date from May 2021 to September 2021.

Commissioner Stern asked if it was correct to assume that staff was testing the viability of the solution by making sure all applications work together. Ms. Chan stated that was correct. Commissioner Mills commended Ms. Chan on the time spent looking at the Lottery's back-office processes to get them aligned with the new technology so that the investment made in dollar and personnel resources can maximize that investment for the long term.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(b). No one came forward, so he proceeded to the motion.

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

c. Addition of Funds to Pollard Banknote Limited Instant Ticket Printing Contract

Deputy Director of Sales and Marketing, Sharon Allen, requested Commission approval to increase expenditure authority to Pollard Banknote Limited's (Pollard) current instant ticket printing contract. The Lottery currently contracts with Pollard as one of its three Scratchers printing vendors, with Pollard typically producing approximately 12 percent of the Lottery's new games annually.

Commissioner Mills asked if the pricing structure changes with the additional funding, and if staff is confident that the Lottery will continue to get the best price through this funding. Ms. Allen stated that within the contract, there are price breaks for increased volume and staff will continue to pursue additional discounts as the volume thresholds are met. Staff will pursue additional efficiencies where possible.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(c). No one came forward, so he proceeded to the motion.

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

d. Extension and Addition of Funds to the Alcone Marketing Group Contract

Deputy Director of Sales and Marketing, Sharon Allen, requested Commission approval for an emergency nine-month contract extension with Alcone Marketing Group for the period of September 1, 2021 to May 31, 2022 with additional funds. Alcone works collaboratively with Lottery marketing staff and partner agencies to strategically plan and develop cohesive and effective marketing programs.

Commissioner Mills asked if the pricing structures change through the extension and if staff can ensure we are getting the best value. Ms. Allen stated that the contract is a fee-based contract based on a staff plan that is annually reviewed against the deliverables, expectations and needs to make sure that we have appropriate staffing resources at the agency to support the activities.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(d). No one came forward, so he proceeded to the motion.

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

**9. Commissioner General Discussion**

**10. Scheduling Next Meetings**

The next Commission Meetings are tentatively scheduled for May 27, and June 24, 2021.

**11. Public Discussion**

For Public Discussion, Chairman Ahern sought public comments or questions. No one came forward. Director Johnson thanked the Commission for their time and support and wanted to recognize the Lottery's hardworking staff. They have enabled the Lottery to set sales records during these very trying times while

keeping staff safe. He also thanked the Lottery's retail partners for their contributions to the Lottery's success in support of public education.

**12. Adjournment**

Meeting adjourned at 11:17 a.m.