

STATE OF CALIFORNIA
TRANSCRIPT OF PROCEEDINGS

CALIFORNIA STATE LOTTERY COMMISSION
COMMISSION MEETING

TIME: 10:00 a.m.

DATE: May 26, 2022

PLACE: California State Lottery Headquarters
700 North 10th Street
Sacramento, California 95811

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Thursday, May 26, 2022

Sacramento, California

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CHAIR AHERN: Good morning, everyone. Wonderful. Thank you. So, we'll call our Commission Meeting to order, and we'll start with the Pledge of Allegiance. If you'd all please join me.

(The Pledge of Allegiance was recited.)

CHAIR AHERN: All righty. And how's the volume, okay? You hear me in the back all right? We're all good? All right. Thank you very much. I think it would only be appropriate if we remembered those people that have been murdered in Texas, and I'd like to take just one moment of silence. I know it is just a symbolic thing, but when we say the Pledge of Allegiance and remember about our freedoms, we also have to remember those people that were tragically killed. So, please.

(Moment of silence.)

CHAIR AHERN: Pray for the families and all of those involved. Will the secretary please call the role?

MS. TOPETE: Commissioner Kirtman? Commissioner Stern?

COMMISSIONER STERN: Here.

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Present.

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Here.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Here. And I'd like to take this opportunity to welcome our newest commissioner, Tiffani Alvidrez. She is a Regional Policy Manager at Instacart and we are happy to have you here join us at the Lottery Commission and actually in person. So, welcome.

COMMISSIONER ALVIDREZ: Thank you, Mr. Chair.

CHAIR AHERN: Most of the time everyone we see is this small on the -- it is nice to see real people, and almost see your faces, so.

We'll look at the -- Item Number 4 is Consider Approval of the Agenda. I was notified that staff request that Action Item 8d, the Construction Services Contract with Otto Construction, be removed from the agenda and tabled to a future meeting. Are there any objections to that?

COMMISSIONERS: No.

CHAIR AHERN: All right. And do any Commissioners have any additional changes to the agenda for today?

COMMISSION MILLS: No.

CHAIR AHERN: All right. Do we have a motion to adopt the amended agenda?

COMMISSIONER STERN: Motion to approve as amended.

CHAIR AHERN: All right. We have a motion and is

there a second.

COMMISSIONER MILLS: I'll second.

CHAIR AHERN: And will the secretary please call the roll.

MS. TOPETE: Commissioner Stern?

COMMISSIONER STERN: Yes.

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. All right. Moving on to Item Number 5. That's the approval of the minutes. Are there any corrections to the minutes? Seeing none, do I hear a motion to approve the minutes from the March 17th, 2022 Commission Meeting?

COMMISSIONER MILLS: I'll move to approve.

COMMISSIONER STERN: Second.

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

MS. TOPETE: Commissioner Stern?

COMMISSIONER STERN: Yes.

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. All righty. Item Number 6 is the Informational Items. And we have Director Alva Johnson unable to join us today, and so we have Chief Deputy Director, that's Harjinder Chima, and she'll be giving us the report. So, welcome.

CHIEF DEPUTY DIRECTOR CHIMA: Thank you, Commissioners. Good morning. Total Lottery sales through Saturday, May 14th are over \$7.8 billion. This is 6 percent above the sales goal and 7 percent higher than Lottery sales mid-May of last year. At this pace, we expect yearend sales for fiscal year 2022 to be one of our highest to date.

Scratcher's distribution sales are over \$6 billion. Since January, scratchers have regularly contributed over \$130 million in sales per week. Much of this year's success can be attributed to the popular \$10, \$20, and \$30 games. Currently, total scratcher sales are pacing 9 percent ahead of last year's sales and 6 percent over goal.

The multi-state games, which include Powerball and Mega Millions have sales of over \$830 million combined. These sales are 2 percent behind last year's sales because of a lack of a billion-dollar jackpot this year. Last year, Mega Millions had a \$1 billion jackpot in January. Yet this

year Mega Millions highest jackpot was for \$432 million back in September of 2021. This has led to Mega Millions sales lagging last year's sales and this year's goal.

Powerball, on the other hand, seems to have benefitted from the change to three draws a week. Powerball has had nine jackpots over \$400 million this year compared to only five in fiscal year 2021. This has resulted in year-to-date sales to be around 40 percent higher than goal and last year's sales. Powerball's success has offset much of Mega Millions' performance this year bringing our total multi-state game sales to 14 percent above goal.

Super Lotto Plus is pacing very close to goal for this year and last year's sales. Another lucky California millionaire was made in April when a ticket sold in San Diego matched all six numbers for the \$38 million jackpot. This is the sixth California millionaire Super Lotto Plus has created in this fiscal year alone.

Sales for the Daily games, which include Daily 3, Daily 4, Fantasy 5, and Daily Derby are pacing on par with the goal and last year's fiscal sales.

Hotspot sales through mid-May continue to exceed goal with sales exceeding \$350 million so far this year. Even higher than Mega Millions and Super Lotto Plus. After it was hit hard by the pandemic in 2020, Hotspot has since rebounded and continues to bring in strong sales each year

-- each week. Excuse me. Year-to-date sales are tracking 9 percent ahead of last year's fiscal sales.

We also assess how the Lottery is performing in terms of its most important measure, the contributions to Public Education. These figures are based on the Lottery's monthly cumulative financial sales report through April 30th. At that time, total sales were running 7 percent of goal, while contributions to education were tracking 17 percent ahead of goal. Currently, total estimated contributions to education are over \$1.7 billion. This is \$245 million greater than goal, and \$150 million more than estimated contributions to education through April of last fiscal year.

Additional information about yearend projections and the reasons behind our sales trends will be part of the next two presentations on the draft business plan and draft budget for fiscal year 2022 and 2023. Thank you. Any questions?

CHAIR AHERN: No questions. So, thank you very much. Thank you. Our next item is Item Number 7, and that's the Consent Calendar. There are no items under Consent Calendar, so we will proceed to Action Items. We have a fairly busy schedule today. We will start with Action Item 8a. Pardon me? Oh, excuse me. We are cleaning -- I thought we were going on.

CHIEF DEPUTY DIRECTOR CHIMA: We are just doing that after every presenter.

CHAIR AHERN: Okay. I think we're hygiene ready. We'll go our Draft Fiscal Year 2022-2023 Business Plan with Jim. Cleaned up. Ready to go. I feel like I'm at a boxing match.

DEPUTY DIRECTOR HASEGAWA: All right. So, I'll be going through the Draft Business Plan for the upcoming fiscal year. And in just in terms of an outline, I'll start with the strategic objectives that you adopted back in 2020. The bulk of the presentation will deal with highlights from our business review showing about recent sales trends not only for Lottery but for some other industries in the leisure and entertainment field. And then finally, the proposed objectives for next fiscal year.

So, our six strategic objectives that you approved back in March of 2020 form the foundation for developing the Annual Business Plan. These six strategic objectives were the result of an extensive assessment and discussion by the executive team, and these objectives represent the best path for continued growth in the Lottery's contributions to California Public Education with a goal of surpassing the \$2 billion threshold. So, you can see the six objectives include modifying operations to ensure the health and safety and to recover from depressed sales, visit retail strategies

to adapt to new consumer preferences, growing draw game sales particularly jackpot games and Hotspot. You might recall that jackpot games, particularly jackpot games have the best profit margin of all of our Lottery products.

The fourth one is diffuse the barriers to play by changing consumer perceptions. Better inform the public and stakeholders about the Lottery is our fifth strategic objective. And finally, transform the corporate culture in the Lottery Organization.

So, as that is the foundation, however, our business plan needs to be dynamic and needs to have the ability to, you know, address new issues that emerge and that's why we conduct a business review each year. And so, let me present some of those highlights.

So, first off, in Fiscal 2018-19, the first full -- the last full fiscal year prior to the pandemic, we did see record sales and contributions to education that year. And you can see our sales were at \$7.388 billion. Now, the following fiscal and fiscal year '20, we had lower sales due to a combination of both the pandemic that started in March and also historically low jackpots. We had significantly fewer big jackpots in that fiscal year than at any time in recent history.

Then, the last two fiscal years, however, we have seen tremendous growth with sale totals far exceeding the

pre-pandemic levels. And, so, I'm going to go into talking about, you know, the reasons behind the recent sales growth.

It is primarily with Scratchers that because it is also our largest product, but we did see gains across all of our games. Here are weekly Scratchers sales from March of 2019 through early May of this current year. So, you can see in mid-March of 2020, the early days of the pandemic, and the introduction of stay-at-home orders, Scratchers sales fell about \$20 million or 20 percent. You can see that one first big dip.

For this product, however, sales are impacted not only by lower consumer demand but also by issues with -- our issues distributing ticket inventory to our retailers because our distribution centers had to modify procedures to include social distancing, and to, you know, protect our employees. So, you can see sales fell -- were below the pre-pandemic levels all the way through September.

Then beginning in January 2021, you see surges in sales and sales rising well above pre-pandemic levels, and actually to some historic highs. But we also want to look at some of the other products in our mix.

The first one I am going to show you here is Daily 3, and the reason why Daily 3 is picked is because this is a product that's really not influenced by things like ticket distribution issues, and it is also one of our few products

that's not influenced by the rise and fall due to jackpots. And so, it really is a good measure, a good measuring stick for us. So, you can see over the first month of the pandemic, sales -- weekly sales fell between about 9 percent and 14 percent. However, by May, sales had rebounded to their pre-pandemic levels. So, it had a much quicker recovery than say Scratchers.

At the other extreme, I wanted to show Hotspot because Hotspot is a game where much of its sales comes from locations where patrons spend more time and socialize such as restaurants, bars, and bowling centers. So, as such, you can see that, you know, many of these retailers were closed at the start of the pandemic, and as such, Hotspot sales fell by as much as 50 percent during March and April.

Now, sales began to recover as more Hotspot players started purchasing their tickets at more traditional Lottery locations like convenience stores and grocery stores. And players could now watch the draw results on the website and our mobile app. That was a feature that was launched prior to the pandemic, but the pandemic really made a big difference for that game in terms of its sales as players adapted to this Hotspot to go.

This game also benefitted from other Lottery players starting to try Hotspot in these traditional locations partly again out of, you know, trying to find a

little more fun and entertainment and this is a different product that is a little different than some of our traditional games.

Now, we believe that the strong sales that you saw in Lottery products in '21 and running into '22 is a result of Californians seeking, you know, some type of fun and entertainment, you know, maybe to be a temporary distraction from the pandemic. And yet, you know, people were not comfortable, you know, traveling on an airplane, going to movie theaters, dining in restaurants, or going to concerts as forms of entertainment. And so, for many people, Lottery became the outlet for some additional fun and entertainment. And we'll look at the sales curves for some other leisure and entertainment categories and compare them to the Lottery to kind of test out that hypothesis.

So, here we have the domestic box office revenue for movie theaters. And you can see that in the spring of 2020, they pretty much lost all revenue as movie theaters were essentially closed as a result of the pandemic. And you can see it had a very immediate impact on them, but they also had a much slower recovery than the curves I showed you for Lottery tickets. Even a year later in the spring of 2021, revenue was 75 percent down from the spring of 2019, and in the fall of 2021, the last bar on the chart, revenue was down 28 percent compared to the fall of 2019. So, they

still had not recovered even at the end of 2021.

Similarly, here's a curve for Southwest Airlines in terms of operating revenue from passenger sales. And you can see a similar curve with a very steep decline, and a very long period of recovery. In the spring of 2021, revenue was still down about 35 percent from the spring prior to the pandemic in 2019. So, you can see that other leisure and entertainment activities really did not see consumers return as quickly as we saw for Lottery because they weren't comfortable doing those activities. The Lottery was in a very fortunate situation. It offered a moment of fun, a little break from the pandemic, but yet consumers could easily buy our ticket because of their visiting the stores that they were sold in, meaning stores like supermarkets and grocery stores.

So, now we want to look at how sales are doing as the pandemic subsides and people begin to feel more comfortable resuming activities they did before the pandemic.

So, this chart shows again weekly Scratcher sales, and it compares the sales in '21 and '22 to the same week in the prior fiscal year. So, you can see that in the summer of this fiscal year, sales were running, you know, 30 to 40 percent ahead of the same in the prior -- in 2020, but by February or so and March, sales are now lagging behind the

levels we saw in 2021. It maxed out kind of at down 10 percent and averaging about maybe like 5 to 6 percent over that period.

Again, looking at the same comparative products, for Daily 3, you can see that the decline started a little sooner in that product category, but also the gains in the summer were not as large as it was for Scratchers. And then for Hotspot, the declines have just started recently in the mid-March period.

Going along with sales, of course, is our playership. And playership has rebounded. You will see that in fiscal 2021, playership meaning the percentage of California adults who have purchased at least one ticket in the past year, declined slightly to 60 percent, but we resumed back to the -- kind of the pre-pandemic levels. The 66 percent there noted for fiscal 2018-19 was high because we had really large jackpots in both Mega Millions and Powerball.

For Scratchers, our largest product, you can see how playership in the first six months of this fiscal year rose to 44 percent, which is statistically higher than the 41 percent we saw last fiscal year. So, again, playership has come back from the pandemic and it is about to the level that we saw prior to the pandemic.

Another slide I wanted to point out is about the

overall perception about the Lottery. So, we have many, many metrics on people's attitudes, perceptions about the Lottery not only its games but us as an organization. And this is kind of a summary measure because it's their overall feeling towards the Lottery. And as you can see the percentage of California adults who say they are very or somewhat positive towards the Lottery has increased over the last 10 years now running at about 52 percent of California adults. And at the same time, then, those that hold a negative perception about us has declined. And so, the 52/15 split you see there is dramatically different than what we saw 10 years ago at a 36/21 split. So, again, we've definitely made strides in this measure.

CHAIR AHERN: Jim, can I ask you a question about the --

DEPUTY DIRECTOR HASEGAWA: Sure.

CHAIR AHERN: -- redline here, very or somewhat negative? Are there explanations that we receive from our surveys on why they are giving us that somewhat negative?

DEPUTY DIRECTOR HASEGAWA: Yeah. We don't have open ends associated with it, but we do have it from some of the other measures and there is really no one specific area. It could be, you know, for many -- for some California adults, the whole notion of government-sponsored, you know, gaming is something that they just may oppose politically or

morally. So, that's a certain percentage of the population and all, but we definitely through other studies kind of look into that in terms of trying to understand the dissatisfaction. I think some of it deals with -- I was talking to the Director earlier this week, on this matter. I think some of it deals with there has been a definite move over the past several years to try and be a lot more transparent. And I think when people don't hear information about any organization, they start filling in the blanks themselves and often times wondering, what are people hiding. And I think the mere fact that we are being very transparent helps in terms of, you know, lowering the negative perceptions about the Lottery.

CHAIR AHERN: Okay. That's not a very high number.

DEPUTY DIRECTOR HASEGAWA: Yes.

CHAIR AHERN: So, that's -- all that negative, so, just wondering what their comments were. Thank you.

COMMISSIONER STERN: And I have a follow-up question to that. Obviously, trending in the right direction, do you have a sense of what the expectation is on both the positive impression and the negative impression for the coming years?

DEPUTY DIRECTOR HASEGAWA: Yeah. We did do some, not on our continuous tracking study, but on some other ones

to kind of look at other companies and brands in terms of how we might -- what does 52 percent mean. And for, you know, many companies it is much higher. So, the goal would be to get it to be in like the 60-70 percent level. We are some brands that are clearly in that level. There are some brands that are like in the 80-90s, which we don't think we can ascribe to, but, you know, our level at 52 percent -- well, it was a little lower then, so at 40-some-odd percent was kind of comparable to some other government agencies and being how we are a brand that sells products, we believe we should be at a much higher level of perception than say other government agencies.

COMMISSIONER STERN: Thank you.

DEPUTY DIRECTOR HASEGAWA: We also wanted to provide you a little bit of information on the assessment of some key programs that occurred during the year. This is just some summary information but, you know, programs where we invest time, money, a lot of staff resources, we always look back to see, what was the impact of that.

First off is the three draws per week for Powerball. And so, our Powerball added a Monday draw, back in August. And so, we, in California, our weekly sales with three draws were about 23 percent higher than we would have expected for the same jackpots during that week if there were just two draws. But there was a big difference between

when the jackpots were big versus, you know, smaller. So, the 23 percentage represents when jackpots were under \$250 million. When jackpots got really large, the weekly sales didn't necessarily increase as much. It averaged just 3 percent. And that does kind of make sense because when there is a big jackpot, you get a lot of the public, a lot of consumers more engaged with the game, and they go buy tickets. It is during the lower levels that maybe the three draws a week add a little extra opportunity to make a purchase and people did take advantage of that.

The other advantage of the three draws per week in Powerball is that the jackpots can roll to more meaningful levels more quickly. With three draws happening, the jackpots progress faster in terms of it from on a calendar basis. And that again, gets to once you get to a larger jackpot, we realize greater sales.

And we also looked to make sure that there wasn't any negative impact on Mega Million sales because in theory somebody when they buy for a Monday draw, might be taking money that they would have spent on Mega Million and instead buying a Powerball ticket. And we did not see any evidence of a negative impact on sales from Mega Millions.

The other thing I wanted to mention is one of our major efforts started this past year, our Scratcher's Brand Repositioning Campaign, A Little Play Can Make Your Day.

Hopefully, you have seen many of our great advertising executions out there both on television, radio, and many other media vehicles.

So, so far, we have used two key measurement tools to begin assessing the effort. One is post-campaign testing and that one we found that our ads have tremendous, high levels of ad recall. We use a company that is in this field, so they aren't just testing our ads and giving us a percentage, they essentially have norms. The normative data that says what an average commercial does in terms of recall and so forth. And our commercials are well above the norm in terms of people remembering that ad and being able to connect it.

The other thing that we see is that the ad shows very positive impacts to those who recall the ad in terms of top-of-mind awareness for Scratchers, interest in buying Scratchers, and their more favorable perceptions of Scratchers. So, it definitely shows it has the ability to start changing perceptions.

Now, the other metric we use -- or measures we use is a tracking study. The same instrument that we showed you for the playership and overall feelings towards the Lottery. Through our Communications Effectiveness Tracking Study, we haven't yet shown any statistically significant gains, but to be perfectly honest this was anticipated because this

measurement was only after five months of the effort. And any type of brand repositioning effort does take a little bit of time to change general attitudes, but clearly through the post-campaign testing, the measures show extreme strength in the advertising executions. And so, it definitely shows promise towards the future, and we anticipate showing statistical changes in general perceptions in the near future. And we will keep the Commission, you know, abreast of these results.

Something outside of our industry I wanted to show, is this is a slide similar to what I presented in the past but adds another year. I thought it might be interesting to see what happens during the pandemic. And this is information collected by the Federal Bank of San Francisco. They do a diary of consumer payment. And as you can see in 2021, cash continued to represent just about 20 percent of payments. So, people are using other forms of payment. It actually didn't accelerate, as I kind of thought it would have, the move towards non-cash payments during the pandemic. It pretty much held steady from the results that they saw in 2020. So, again, about 80 percent of all general consumer payments, you know, they use some instrument other than cash. And you might recall that, you know, our product is only a cash-only product. And so, it does present a barrier to play for some of our consumers.

Now, moving into kind of setting up for the coming fiscal year is as you saw from the data that I presented, there are some immediate actions needed because the Lottery will be competing in a much more competitive environment for the entertainment dollar as people, you know, resume their activities and actually there is a lot of pent-up demand for going on vacation, going to restaurants, socializing with your friends, doing the things that people haven't done over the past two years. There is going to be tremendous competition for that entertainment dollar. And, so, the Lottery needs to do everything it can to help minimize any sales decline.

At the same time, we wanted to also mention that there are a lot of multi-year efforts now. You know, the activities, the tactics that the Lottery can do, are much more complex today than they were, you know, 5, 10, 15 years ago. They involve multi-year projects that have a heavy reliance on technology to implement. And so, as such, we need to do -- there are a lot more multi-year projects involved. We need to do a better job of, you know, assessing our alternative ideas to really determine which gives us the maxed -- the best effort at maximizing dollars for education. And, so, you will see in the upcoming year that a lot of initiatives are really focused on that first step of research and analysis to really understand the

potential and what it would take to do a project before just embarking on it.

So, now I turn to the objectives for the upcoming fiscal year, the draft objectives. Now, as I go through the objectives, I will describe examples of tactics that we are considering to tackle these objectives. We haven't finished determining the exact tactics for next year and that is because we have more initiatives, more ideas, more proposed projects than we really have the staff resources to implement all. And so, we are going through the process now of prioritization. And between now and the June meeting, we will finish that so that way at the June meeting we will be able to present the proposed tactics for next fiscal year.

So, first off, is the area of Scratchers. You know, to maintain that interest and play of that product, it is one of our most entertaining products for our players. And so, as much effort as possible is devoted to our Scratcher product to keep sale levels as strong as they we can possible could. Now, one area is our crossword scratches. They are actually among our most popular games with players enjoying the entertainment value that that product provides. And so, in the upcoming year, crossword games will be introduced at the \$1 and \$30 price points for the first time, and that complements the \$3, \$5, \$10, and \$20 crossword products. So, that is an example in that

area.

In the area of reinvigorating retail, that is going to be a key component not just for next year, but in the future years for growing sales and contributions to education. In this coming fiscal year, we will begin selling in Walmart Supercenters. There are 212 Walmart Supercenters in California, and from my recollection, at least this probably represents the largest new chain to begin selling Lottery in at least the past 10 years or so. So, this is a big initiative for the Lottery to bring on this retailer and, you know, start an engagement with that company.

In the area of draw games, particularly jackpot games and Hotspot, for Super Lotto Plus, our in-state jackpot game, during this past fiscal year, a team composed of members across all the Lottery's divisions was formed to look at ways to improve sales, increase sales in the draw games. For Super Lotto Plus, in particular, this team developed a list of about two dozen different ideas for growing sales of this game. Then, they did kind of a preliminary assessment of these different ideas. So, for the upcoming year, the top candidates will now go through a little more rigorous evaluation that will include consumer research and testing to see how these different ideas will impact revenue for Super Lotto Plus and that way they can

then be implemented in a subsequent year.

For the fourth area in diffusing barriers, as I have shown in some of the earlier slides, we have definitely made some initial in-roads into improving consumer perceptions whether overall about the Lottery or specifically about Scratchers. So, in terms of that, some of the work continues -- will need to continue in that area. So, the Scratchers brand repositioning effort will continue next fiscal year with new executions of advertising.

And in terms of telling the Lottery story, one of the areas that another cross-division team came up with is really developing communication efforts to some key audiences, and they include loyal Lottery players, retailers, and Lottery staff. And the reason why those groups are really important to reach out to first is when general communications are made about the Lottery and its contributions to education and other things about our operations. Typically people that are not familiar with the Lottery might ask another person, and that person tends to be either a friend or a family member who they know plays the Lottery a lot may have more information about the Lottery. They will ask their local Lottery retailer, or they might ask somebody they know that works at the Lottery. And that is why it is very important that these key audiences really understand the story and know what to say

and know the answers to those questions because that reinforces any types of communications that might come out of the organization.

And then the final objective for this upcoming fiscal year is to transform and modernize the Lottery. There will be many projects in this area. Now, some will be in the early stages of this kind of research and analysis that I described a little bit earlier. Some are at the very last stages of a multi-year effort to complete for implementation and others will begin the implementation effort that might take more than just one fiscal year. So, there will be many projects in this area. So, we have many technical projects that involve such things as migrating software or systems to the cloud. We are looking at modernizing processes and bringing in technology to eliminate manual tracking for many of our human resources functions and forms. So, those are just some examples, and this is one big area that we really are going to be doing a lot of prioritization because there are a lot of great ideas, great needs in the organization, and we have to figure out which ones we can tackle for next year.

But one of the most important initiatives in this area is to help transform the corporate culture at the Lottery. And to an organization that's, you know, is more mature with better processes and procedures and controls,

where all Lottery staff, you know, feel empowered to make decisions around, you know, what maximizes our funds to public education, taking the kind of broad overview of the organization, rather than maybe the specific objectives or desires of just one division. So, it is really trying to break down the silos and all. And an organization that takes advantage of technology to be more efficient and effective, but yet still nimble to react to changing business conditions. And to really make this type of transformation in an organization, it really requires these things to be part of the DNA of the organization. And to do that, it really comes down to the people, right? The people who work at the Lottery and that's why that is really important and there are a lot of initiatives to drive that, to bring the employees, break down the silos and bring all of us together towards the one ultimate goal. So, it is really the people that make the change in the culture and there are a lot of efforts going on in the upcoming year to that effect.

So, that's the draft plan. Obviously, this is very rough at this stage, but any questions? And we will have a lot more details, of course, between now and the June meeting.

COMMISSIONER STERN: I do have a quick question on the consumer payments that don't use cash. So, it looks

like mobile is a new category as of 2021. How are we defining mobile? Is that Apple Pay or is it --

DEPUTY DIRECTOR HASEGAWA: Yeah. Again, this is the study I got from the Federal Reserve Bank, so I believe -- I would consider mobile payment more like the Apple Pay in so far as where you are using the smartphone to do a payment. Because these are still payments that are not done necessarily on the internet. These are still retail transactions, consumer choice payments. So, it would have to be like paying by your phone and doing it through Apple Pay. And it just started, as you can see, the date of it didn't classify them separately until this most recent year.

COMMISSIONER STERN: Yeah, because it is interesting because you actually use a credit card on a mobile phone now or just more kind of curious on what's the definition of the app that is required for mobile pay versus --

DEPUTY DIRECTOR HASEGAWA: Yeah. I can look --

COMMISSIONER STERN: -- just curious.

DEPUTY DIRECTOR HASEGAWA: Yeah. I can look more at their specific study because it was not our sponsored research to see how they defined it. I would guess because they didn't indicate it with like an asterisk that credit card that if the credit card was on the phone, then it is still a credit card payment as opposed to an Apple Pay or a

Google Pay. I can double check with you -- double check with the actual study, the report, and I can get back to you.

COMMISSIONER STERN: Yeah. I imagine it will be a trend moving forward. So, I'm curious how that is defined. Yeah. Thank you.

COMMISSIONER MILLS: I have a couple questions as well. Thank you, Jim, for the presentation. I always enjoy your presentations. They are always so clear and detailed, but concise at the same time. Can you remind us, the time period or the overarching goals?

DEPUTY DIRECTOR HASEGAWA: Yeah. At that time they were about a three- to five-year period.

COMMISSIONER MILLS: Okay. And --

DEPUTY DIRECTOR HASEGAWA: And we are working on refreshing those because of not trying to like say, well, the period is over, let's start from scratch. So, we are actually, through the cross-division teams, have done a lot of evaluation of ideas to try and develop kind of what are the ones that rise to the top for the next three to five years. So, we are actually in the process of updating that, and hopefully be able to bring that to the Commission sometime during the fall.

COMMISSIONER MILLS: Great. Thank you, and the two billion in contributions to education, it looks like we

are super close. Do we think we'll meet that this year?

DEPUTY DIRECTOR HASEGAWA: Actually, I think it is very possible. It might depend on some of the accounting measures and so forth. Nick's job and all.

COMMISSIONER MILLS: Hey, Nick, it is on you.

DEPUTY DIRECTOR HASEGAWA: But I would say how I would tweak the strategic objectives kind of make it more on a consistent basis. Always being able to be relied on for more than two billion might be the word-smithing tweak that we would do for the future even if we do surpass two billion this year because as you saw, some of the gains in sales were ones that we might not anticipate every year. So, we have got to be able to build in through our own programs that we can rely on sales that could get us to that \$2 billion year after year.

COMMISSIONER MILLS: So, the intention of that goal is to create a sustainable contribution of greater than two billion?

DEPUTY DISTRICT HASEGAWA: Right.

COMMISSIONER MILLS: Well, we should still celebrate --

DEPUTY DISTRICT HASEGAWA: Yes.

COMMISSIONER MILLS: -- this year. We talked about the ticket distribution challenges. Have those -- has the warehouse been able to adapt and get back to kind of

pre-pandemic operations or are there still challenges that we are incurring related to ticket distribution?

DEPUTY DIRECTOR ALLEN: Do you want me to answer that one?

DEPUTY DIRECTOR HASEGAWA: Yeah. I think Sharon would have better up-to-date information.

DEPUTY DIRECTOR ALLEN: Hi. We have improved significantly. We are keeping up with demand and not having backlogs, but we are doing that by limiting the amount of games and making sure that the warehouses can handle the production levels. But we have been ramping up the number of games over the last couple months so we can get to have full game distribution.

We are also hiring, and we have been really challenged with getting staff in these positions. This whole industry has completely, I think, exploded and there is such demand for logistics and warehouse workers and our state salaries are not always competitive to those that are offering on-the-spot bonuses and things like that. So, we are looking to hire so we can expand the production particularly in the north, which is smaller and start a second shift until we can expand the distribution center. But things are getting much better and almost back to normal. And we also have our field staff who supplement the distribution to make sure that our retailers are getting the

games that they need.

COMMISSIONER MILLS: That's great. Thank you. So, what I am hearing is much, much better, but still room for (overlapping).

DEPUTY DIRECTOR ALLEN: Oh, a lot better, but not back to normal. But our demand has also increased significantly since pre-pandemic. So, that's kind of a new factor too because we are trying to meet the level or the volume of our business, which has increased.

COMMISSIONER MILLS: Great. Thank you.

DEPUTY DIRECTOR ALLEN: Thank you.

COMMISSIONER ALVIDREZ: Quick question about the objectives for fiscal year 2022-2023. Under the creating opportunities to grow sales and draw games, particularly for jackpot games and Hotspots, I think you mentioned you are doing consumer research and texting. How long does that consumer research take? What are some of the components of that consumer research? Are we looking at other social media channels, other opportunities to kind of grow these games and reach a broader audience that does not necessarily fit our demographic profile?

DEPUTY DISTRICT HASEGAWA: Yeah. The various list of ideas, you know, do range still with selling the product at brick-and-mortar type stores. However, in some cases, maybe the marketing campaign or the outreach effort might be

in vehicles, although we are currently on things like social media through our current advertising strategies.

The research, there are two components of. One is the consumer research and testing and that typically takes about a three-month/four-month type period, but there is more to it than just understanding that. Because once we identify the revenue potential for different ideas, then it is to determine what is the, I guess, the resources needed to implement that different project? And so, we have to look at both the upside but also the resources to do that and all of that will probably take close to, you know, about a 12-month period. So, by the time we present the plan for next year, we will definitely be able to know which ideas make sense to follow up on for Super Lotto Plus.

COMMISSIONER ALVIDREZ: And is that consumer research and testing given it takes the 12 months, that total process?

DEPUTY DISTRICT HASEGAWA: No, the consumer research and testing is probably about a three- to four-month period of that. After that period then goes into, once we now understand like the volume that -- the sales volume that might be generated from different ideas, then what does it take in terms of budget and staff resource --

COMMISSIONER ALVIDREZ: Got it.

DEPUTY DISTRICT HASEGAWA: -- to do that project.

Because, you know, something that be -- generate \$100 million but if it takes everybody, you know, five times more staff resources to generate compared to the project that takes only -- that gets us \$60 million in sales, maybe the \$60 million project is a better bang for us to implement. That's what will take the remainder after the three to four months of the consumer research.

COMMISSIONER ALVIDREZ: Got it. How often do we do that consumer research? Is that on a regular schedule or is that periodic?

DEPUTY DISTRICT HASEGAWA: We are always doing consumer research, but it might vary from product to product. So, I would say the best example would be like for Scratchers. Scratchers because we have so many products being introduced a year, there is probably a team within my group that works very closely with Sharon's group to identify ideas and there is probably some type of scratcher type of testing that is going on probably on almost a quarterly basis.

Draw games is a little different. It might be different draw games depending on the need of which product we feel has potential for growth. And so, that product -- which products we research, will depend. So, that is not on a consistent, every year, basis necessarily.

And the other element to that is that for some of

the games that we sell, Powerball and Mega Millions, you've got to remember those are multi-state efforts that involve a consortium of multiple states. And so there, we are just one part of many. And, so, research can happen by the consortium for products like Mega Millions and Powerball.

COMMISSIONER ALVIDREZ: Thank you.

COMMISSIONER MILLS: I have another question just thinking about some of the challenges with the cash -- the barrier of the cash requirement and then the competition of other forms of entertainment coming up. And I will admit I am not totally 100 percent versed on all the rules and regulations, so, I am sure there are regulations around this. But are there opportunities to mitigate and alleviate, you know, the barrier of the cash requirement because that's -- I mean, I don't carry cash. And it is becoming more and more of us are using other forms of payment. And then thinking about the, you know, the competition of entertainment, are there any opportunities to think beyond our traditional retailers about product placement? Can we place products in a movie theater? Can we place products in an airport? Can we -- you know, where people are starting to spend their discretionary money now that entertainment is back.

DEPUTY DIRECTOR HASEGAWA: All right. The first area dealing with cash is what the team has been looking at

lot is in that area because there are many -- not many, there are several Lottery jurisdictions that have been moving to allowing debit cards as part of it. So, for example, the self-service machines can be outfitted to accept debit cards and so forth. And the retail locations, it might depend, because obviously that might be up to the retailer, but the self-service machines is something that we definitely can control. And so, many jurisdictions have gone that route, and we have been looking at the sales benefits they have been receiving. The one downside, of course, with debit cards is that you have to have a financial intermediary to handle the transactions and they charge you a fee. So, there is really a lot of, kind of, projections and research that is going to be needed to make sure that the bottom line is still going to be a positive one. Because somebody now that is putting cash into the machine, if they now put the same amount of cash into the machine but now -- not cash machine -- that they did with cash, but now use a debit card, we make less money on it, right? Because we now have to pay that financial institution to handle that transaction.

COMMISSIONER MILLS: Okay, thank you.

DEPUTY DIRECTOR HASEGAWA: Yeah, so there's that. And then in terms of other venues, that is always being looked at not only by Lottery staff, like the people in our

recruitment area, but also various vendors and so forth. So, I know we are always getting ideas pitched for us in terms of alternatives.

Airports you mentioned specifically, I know in the past Lottery personnel has definitely looked into that. Some of it comes down to the issue that many airports require a certain percentage of the gross. And since a retailer typically makes 6 percent as it is, giving the airport, you know, more than that 6 percent means that they wouldn't receive anything ultimately. So, a lot of it deals with some of those issues and trying to get around it. And also, you know, so it requires a little more discussions with different airport authorities and all. But that has been our experience in the past with trying to get to sell in the airports.

COMMISSIONER MILLS: Thank you.

CHAIR AHERN: All right. Thank you very much, Jim. Next, on Informational Items is 6c, Draft of our Fiscal Year 2022-23. We'll call on Nick for round four. You guys have been practicing.

DEPUTY DIRECTOR BUCHEN: I want to make it a little more difficult on Rebecca the next go around, so I'm going to touch as much as possible.

Hello Commissioners, Nick Buchen, Deputy Director of Finance. I'm here today to present the Draft Fiscal Year

2022-23 Budget, and of course the fiscal year begins on July 1st. Because certain aspects of this draft budget are still being refined, there will be some relatively minor changes when I present the budget for your approval at our June commission meeting. So, although it is not completely final, I am presenting this draft as a non-voting informational item to give you a sense of the direction we are headed and to be more thoughtful and informed when I present the budget for your approval next month.

Before I get into the numbers, I want to give you a quick recap of our budget development process. As has been done for the last few years now, we develop the Lottery's operational expense budget from the ground up. And this process is referred to as Zero-Base Budgeting. This means that each individual element was vetted and justified prior to inclusion in the proposed budget, which enables resources to be concentrated where they are most effective and best aligned with the Lottery's strategic objectives.

The Business Planning Group developed a preliminary sales estimate by product incorporating projected gains from certain initiatives that are already in progress and then we determined the associated prize expense. This, in turn, allowed for us to determine the retailer compensation and gaming cost estimates since these

are largely dependent on sales.

So, the result of this process is the Draft Fiscal Year 2022-23 Budget projecting just over \$8.5 billion in sales revenue and a contribution to education of just over \$1.8 billion. I know it is difficult to make out the detail on this slide, so I will walk through each of the main sections separately. And each slide I will go over with you today, compares our estimated revenues and expenditures for the 2022-23 fiscal year to our estimate of how we will end the current fiscal year on June 30th. And before I dive in, just a reminder that all dollar amounts in these slides are in thousands, and also feel free to stop me at any time if you have any questions.

As I walk through the draft budget, it is helpful to keep in mind the Lottery's budget is a basic formula comprised of four major elements, ticket sales revenue minus the associated prize expense minus our administrative expenses equals our contribution to education.

So for the first of those major components, sales, you can see in the middle column that we are projecting a total of \$8.51 billion in sales for fiscal year 2022-23. And the far-right column shows that this is a decrease of \$448 million from the level with which we were projecting to end the current fiscal year. This represents a decrease of 5 percent. And the primary reason for this projected year-

over-year decrease in sales is that we experienced a windfall in the current fiscal year as certain consumers spent significantly more on Lottery than they otherwise would have given that they were either unable to uncomfortable with participating in other forms of entertainment and leisure during the pandemic. And we knew this boost in sales would not be sustainable as consumers are resuming various other leisure and entertainment activities and they are readjusting their associated spending accordingly we have seen the lift in sales level off and begin to decline as compared to the same time last year and this was shown in Jim's slides earlier.

So, for context, the total projected sales for fiscal year 2022-23 is still more than \$1 billion higher than the sales we experienced in fiscal year 2018-19, which was the last full fiscal year prior to the pandemic. So, we are clearly still on a growth trajectory, and this highlights how much of an anomaly the current year performance is. So, you can see in the far-right column that every game except Mega Millions has a projected year-over-year decrease in sales, which is due to consumers recalibrating their leisure entertainment spending. Despite this, we are projecting a slight year-over-year increase for Mega Millions and that is primarily because we had lower than expected sales in the current year due to having

relatively low jackpots throughout the fiscal year. We expect Mega Millions to have more typical roll patterns in the coming year based on the odds.

And before I leave the sale's section, I want to caution that there is a fair amount of uncertainty in our revenue projections for the coming year. In addition to the shift in entertainment spending as a result of the pandemic subsiding that I have already discussed, we are experiencing unprecedented levels of inflation bringing higher costs to leisure and entertainment activities such as airfare, restaurant prices, and gas prices for vacations involving travel by automobile. We simply can't say with certainty how this will impact Lottery purchases.

The next key area of the budget is prize expense. On the second to last line, you can see that prize expense is projected to total just under \$5.7 billion for 2022-23. And this is a decrease of \$235.8 million or 4 percent from the current year projection. And this decrease is driven by the overall year-over-year decrease in sales. The \$5.7 billion total budgeted for prize expense for fiscal year 2022-23 equates to 67 percent of our total projected sales and that is on the outer edge of the optimal prize payout range of 65 percent to 67 percent that was recommended in last year's analysis for the Lottery to determine the optimal prize payout rate. You will recall that the Lottery

now has a policy requiring the director to make an annual determination that prize payout levels across all games have been optimized for the coming fiscal year, and this is to ensure that funding for education is maximized annually. We are still refining our sales and prize expense estimates and we will be reflecting the director-approved optimal prize payout rate for the coming fiscal year in the budget that I present for your approval next month.

The next major category of the budget is administrative expenses which the Lottery Act caps at 13 percent of total sales. And the first two areas of administrative expense are retailer compensation and gaming costs. Combined, these are estimated to total \$734.7 million in 2022-23. And this represents a decrease of just over \$40 million or 5.2 percent from the current year projection.

Most of these items have projected year-over-year decreases, which mirror the total projected decrease in sales. However, these decreases are partially offset by projected increase in Scratchers' ticket costs. These costs are projected to increase in 2022-23 as we are planning to have more licensed scratchers' games and specialized printing features such as holographic paper as compared to what we had in this current fiscal year.

And the final area of administrative expense is

our operating costs. And I'll go through this area line-by-line. So, the first of these items is personal services, which includes the salary and benefit costs of all Lottery employees including temporary help and overtime. The projected \$3.9 million year-over-year increase is primarily attributable to the proposed addition of 37 new positions for the coming fiscal year. I will go into detail on each new position request when I present the budget for your approval next month, but there are two main reasons necessitating the new positions.

Twenty-one of the proposed new positions are needed to keep pace with the Lottery's recent growth in sales and our projected growth in the retailer network and will enable us to provide better customer service to our external stakeholders such as our retailer partners and players. As I mentioned earlier, even though our sales are projected to decrease from the current fiscal year, the estimated sales for the coming fiscal year still represent significant growth from the previous fiscal years.

The other 16 proposed new positions are needed to address our infrastructural debt to enable us to provide backend support necessary to keep pace with our growth and sales and to proactively prevent deficiencies that lead to audit findings. The request for these new positions is still being refined and I expect that there will be changes

in this area when I present the budget for your approval next month. Again, I will cover each new position we are requesting in detail. I will discuss the positions in detail at that time.

CHAIR AHERN: (static on microphone) It's going to increase our cost.

DEPUTY DIRECTOR BUCHEN: This wasn't in this budget. Let's see. So, like I said, I'll cover the detail of all the new requested positions next month when I present the final proposed budget.

So, another change we are proposing in the coming fiscal year related to positions is to properly budget an account for the Lottery's 49 permanent intermittent positions. And by definition, these are positions for which work hours are capped at 1,500 hours per year. These positions are typically used to address seasonal activities or other workload that does not lend itself to full-time support. And for decades, the Lottery has been funding these positions out of what is called the Temporary Help Blanket, and that means they are not reflected in the Department's total position headcount.

The Temporary Help Blanket is more appropriately used to fund one- or two-year limited term positions or for other temporary needs such as backfilling to hire for an approaching retirement. We have also found that many of

these permanent, intermittent positions have been exceeding the annual 1,500-hour cap and are more appropriate to be converted to permanent full-time positions. So, although converting many of the permanent intermittent positions to permanent full time and using permanent funding for the remainder of them will increase the Lottery's position count by 49, this is a transparency and truth in budgeting issue.

The incremental cost associated with this is almost negligible since the Lottery has been paying for these positions all along out of the Temporary Help Blanket. And, of course, we have been paying for the total hours worked even those above the 1,500-hour cap. So, this is simply realigning the budget accordingly and brings transparency for the number of employees actually required to run the Lottery.

So, I've talked a lot about positions. So, to put some context on this, the \$122.7 million that is budgeted for personal services in 2022-23 is less than 1.5 percent of our projected revenues. So, we, therefore, still run very lean even with the investment in new positions.

And moving on to the next line, the marketing program. We are projecting a \$9.9 million year-over-year increase. The primary driver of this increase is to invest in a new jackpot game category support effort, which is part of an overall strategic shift to help build sales of our

jackpot gains outside of lotto fever periods and to lower barriers to play for casual players by changing perceptions. This effort, which is consistent with two of our six strategic objectives, was conceived prior to the pandemic and was put on hold due to competing priorities. Resuming this effort now, will help retain new players that we have gained over the last couple of years and bring front-of-mind awareness that draw games are fun and this is more important now that many other entertainment options are once again available.

For the next line item, contractual services, we are projecting a year-over-year increase of \$8.7 million. This increase is primarily due to us not accomplishing as much as was planned for this current fiscal year and instead shifting funding for these efforts to the coming fiscal year. One such example is the needed renovation of our northern distribution center for which a construction services contract will likely be presented for your approval at a future commission meeting. We also experienced some delays in the current fiscal year that prevented us from procuring certain IT and research contracts. And these contracts are instead anticipated to be executed in the coming fiscal year.

And for the next line, depreciation, we are projecting year-over-year increase of \$1.2 million and that

is primarily for new vehicle acquisitions.

For the operating expense line, we are projecting a year-over-year increase of nearly \$5.4 million and that is based on several factors. A large driver of this year-over-year increase is a directed adjustment by the Department of Finance that significantly reduced our pro rata expense in the current fiscal year. And state departments are assessed a pro rata share for paying indirect costs incurred by central service agencies such as the Department of General Services and the Legislature. Another contributing factor for this year-over-year increase was the deferral of some facility projects and maintenance in this current fiscal year.

And lastly, we are reflecting increased travel costs in the coming year as we anticipate that travel will resume for certain functions that are more conducive to in-person business.

The last two items within operating costs are the reserves. In the current year, we have zeroed out all the reserves since anything that we funded from them has already been reflected in the other operating costs categories. For 2022-23, we are again maintaining a \$5 million reserve for insurable risk to cover fiscal exposure for the areas of our organization that we are self-ensuring. And as shown on the next line, the 2022-23 budget also currently includes \$73.9

million for the administrative spending reserve. And that amount is simply derived by formula. It is 13 percent of our total sales projection minus the sum of the administrative expense items above this line including the retailer and gaming costs that were on the previous slide.

This administrative spending reserve acts as a safeguard against uncertainties such as if our sales do not come in as projected. And this reserve is also needed to meet our operational needs when unanticipated items arise during the course of the fiscal year. I'll talk more about the administrative spending reserve when I present the budget for approval next month.

So, looking at the bottom line, the total administrative expenses, which is the sum of retailer compensation, gaming costs, and operating costs, including both of the reserves, is projected to be \$1.1 billion in 2022-23. And that is precisely 13 percent of the \$8.51 billion in projected sales. Any unspent administrative funds below the 13 percent cap including unspent funds within both reserves will be transferred in their entirety to education. And the Lottery typically spends well below the cap each year and has transferred more than \$1.2 billion to date in administrative savings to education.

And moving on to the last area of the budget, this is why the Lottery even exists, our contribution to

education. So, there are a few items beyond the major categories that I have already gone over that factor into the final contribution now. Specifically, both unclaimed prizes and interest earnings on our cash sitting within the state treasury are mandated to be transferred directly to education. And assuming both reserves remain unspent, which is what that last line reflects, the total projected contribution to Public Education is currently estimated to be more than \$1.81 billion in fiscal year 2022-23. Although this is a decrease as compared to the phenomenal success we have had in the current year, this should not take anything away from the impressive performance that we are projecting for the coming fiscal year.

And to Commissioner Mills' earlier question, you can see we are projecting just over \$2 billion in the current year.

And this last slide is a simple depiction to help dispel the myth of where all the Lottery funding goes. So, assuming the reserves remain unspent and excluding the unclaimed prizes and interest earnings, you can see that 67 percent of our projected sales for fiscal year 2022-23 will go toward paying prizes, 21 percent will go toward providing supplemental funding to education, 9 percent will be used to compensate our retailer partners and pay for our gaming costs, and only 3 percent will be used for our operating

expenses. And then 9 percent of our retailer and gaming costs combined, that splits out between retailer compensation accounting for approximately 7 percent of total sales and gaming costs accounting for roughly 2 percent of the total sales. So, adding all that up, 95 cents out of every dollar the Lottery takes in, is returned to the public in the form of funding for Public Education, prizes paid to our players, and compensation paid to our retailer partners.

That concludes my presentation. I'm happy to take any questions you may have.

CHAIR AHERN: All right. Thank you, Nick. Any questions for Nick?

COMMISSIONER STERN: Can you expand a little bit on your methodology when you are setting the sales figures for the games that have more variability as the prize payout increases? Is it -- do you set a meet or beat number? Do you do it on historical trends? Just curious there.

DEPUTY DIRECTOR BUCHEN: So, certain games like Draw really are more stable. It is close to 50 percent for many of those games. It is Scratchers and Hotspot that we have more control over as an organization. And Scratchers in particular through the years, the players have naturally been going to higher and higher price points. So, as they do so, that increases our prize expense. Of course, we are making more sales and obviously we are still making money in

doing that to the bottom line, but that's the biggest variability.

COMMISSIONER STERN: Great. Thank you.

CHAIR AHERN: One more question?

COMMISSIONER MILLS: I do have a question. Nick, I wondered -- I think you mentioned it, but I might have gotten a little distracted by the microphone. So, the Scratchers sales are projected to decrease but the ticket cost and the delivery and support costs for Scratchers are either flat or increasing? Can you say a little bit more about that relationship?

DEPUTY DIRECTOR BUCHEN: Sure. The biggest difference, that line for ticket costs, includes both the amount that we pay the three specialized vendors that print Scratchers that you will be hearing about in a little bit here, but also it includes certain aspects that we have licensed games where we pay a licensing fee. Like Monopoly is a good example. And then, other games that are printed on specialized paper that, you know, has more consumer appeal, catches your attention, holographic paper, and that kind of thing. So, we anticipate there is going to be more of those types of things even though overall ticket sales are projected to be less, we are doing more specialized features.

COMMISSIONER MILLS: So, can you -- do you know

the -- so the total contribution to education that is coming from Scratchers, how is that going to compare this year -- next year to this year? Is the total coming down as well?

DEPUTY DIRECTOR BUCHEN: The way this draft budget is presented, it is because we anticipate -- the draft budget assumes that Scratchers prize payout is going to be more in the coming fiscal year than it was in this current fiscal year. And I expect -- I know that is a very conservative amount right now, the 67 percent that we have for prize -- total prize expense or like I said, we are on the outer bound of the optimal prize payout range. So, for the coming budget that I present next month, I anticipate that that will come down a little bit. But, like I said, we do know that generally every year consumes will -- some of them will move up in the price points.

COMMISSIONER MILLS: You know, I know Scratchers are our highest cost game, they are also our largest dollar amount to the contribution to education, so I am just thinking about, I think it will be important as we are expecting sales to decline to really focus on the controllable costs. And if there are controllable costs that we can try to drive down to increase that margin percentage on those sales. I think that will be really important especially as we are moving into what we expect to be a declining year.

DEPUTY DIRECTOR BUCHEN: And I guess I should clarify for things like licensed games and the specialized paper, so research has shown that those do better than, you know, non-specialized games. So, you know, they do pencil out that it pays off. So, we do look at those kinds of things.

COMMISSIONER MILLS: All right. Thank you.

CHAIR AHERN: Okay. Thank you, Nick.

DEPUTY DIRECTOR BUCHEN: Thank you.

CHAIR AHERN: All right. Item Number 7, we covered before. There are no items on the Consent Calendar. I'll look at my partners, how we doing? We doing okay?

COMMISSIONER STERN: Doing great.

CHAIR AHERN: Okay. And warming up in the bullpen is Sharon Allen. Today, Action Item 8a is Contract Amendments Concerning Scratchers Printing Services. Sharon will give us a brief overview on 8a and then items 1 through 3 and then proceed each of them for voting processes. All right.

DEPUTY DIRECTOR ALLEN: Okay.

CHAIR AHERN: Did I get that right, Sharon?

DEPUTY DIRECTOR ALLEN: You did. Thank you so much. Oh, it seems loud. All right. Good morning, Chairman and Commissioners. I'm really excited to be here today in person. Nice to see you all. I'm Sharon Allen,

Deputy Director of Sales and Marketing and I'm here to present the three items regarding Scratchers Printing Services.

There are currently only three vendors in the world that provide the comprehensive, highly specialized printing services that can meet the quality, volume, and security requirements of the Lottery. Scientific Games, Pollard Banknote, and IGT Global Solutions. And they Lottery has contracts with each of them.

After a competitive RFP process, these three contracts were first awarded by the Commission in 2013 with an initial term of six years with options to extend for one 3-year term and three 1-year terms. In 2019, the Commission approved three-year extensions for each contract.

All three vendors are strategic business partners and have helped the Lottery increase Scratcher sales from approximately \$3 billion in 2013 to over \$6.4 billion in 2021. With the contracts set to expire this November, we are here today to request approval to amend the three contracts to extend for one year as well as add funds in two of the contracts. This will ensure uninterrupted Scratcher sales and also save valuable staff resources and expenses associated with issuing an RFP. I'd be happy to answer any questions now or I can go into each individual item.

COMMISSIONER STERN: Just one quick question. Are

our partners experiencing any supply chain issues in terms of their inventory and products that they need to manufacture tickets and/or kiosks or anything along those lines?

DEPUTY DIRECTOR ALLEN: We have been -- definitely all of the printers because the other lotteries are just like what Jim was talking about, there was a surge in demand for Lottery tickets as throughout the country pandemic restrictions came. And so, it was unexpected for the Scratcher's vendors and because there is such a limited amount of space on massive printing presses, everybody was competing for time, and we had to make some changes and order sooner. And all three of our vendors worked with us to prioritize California. We are an important client. And also, as we have had our distribution issues too, we had to move the schedule and things like that. But the supply chain has impacted all of our printing vendors. It's leveled out. We even expanded with one of our vendors to a new plant in Canada with Scientific Games. They are mainly printed in Georgia, but in order to do additional capacity, we had our sled team go up and review the plant and are now printing in Canada so we could move -- produce more product and meet our demand.

COMMISSIONER STERN: Great. Thank you.

DEPUTY DIRECTOR ALLEN: Okay. All right. So, now

I will go into each item. All right. First up is Item 8a1, Scientific Games International, Instant Ticket Printing Contract Extension and Increase in Expenditure Authority.

As the primary vendor, Scientific Games or SGI, is responsible for printing the majority of Scratchers and has additional responsibilities such as providing onsite staff and extended marketing support. SGI is a valuable business partner providing unique and innovative products and up-to-date trends and expertise. They provide some of the Lottery's top selling games including Monopoly and Loteria. And as they face capacity issues due to national demand for Instant Tickets and supply chain disruptions during the pandemic, Scientific Games continued to work with the Lottery to supply Scratchers. We just talked about. While the Lottery has realized record-breaking Scratcher sales because of increased demand, the resulting printing costs have been higher than expected.

The current maximum authorized contract expenditure is \$176 million. At the end of last month, approximately \$14 million is available for the remainder of the current contract term. To allow for sufficient funding through the current and proposed extension ending in November of next year, an increase of the expenditure authority by \$48 million is recommended. Lottery staff recommends that the Commission approve an extension of the

Scientific Games printing contract for one year and an increase of the expenditure authority. The new contract will expire November 30th, 2023 and have a maximum contract amount of \$224 million. With that that's Scientific Games, I'd be happy to answer any questions.

CHAIR AHERN: Okay. Go ahead.

COMMISSIONER MILLS: Sharon did the -- and maybe this is the same question for all three of these. I should have asked it earlier. How did the -- can you talk about the pricing? How the pricing changed or if it did with these amendments? Or was that already pre-negotiated into the amendments?

DEPUTY DIRECTOR ALLEN: It is all pre-negotiated in the contract, but once an extension is approved, we will work with our vendors to see if there is any favorable pricing that we can secure.

For the next item, Pollard, we had an increase in expenditure authority and there was -- because we were investing a higher volume than originally planned, we negotiated with them some cost savings that averaged out to just about 10 percent. So, once this is approved, we will go through that exercise as well because of the higher volume that we are experiencing.

COMMISSIONER MILLS: Okay. So, just to make sure that I understand. So, the pricing was pre-negotiated into

their original contract?

DEPUTY DIRECTOR ALLEN: Yes.

COMMISSIONER MILLS: And when there is the opportunity to drive that cost even down further you are doing that.

DEPUTY DIRECTOR ALLEN: We will.

COMMISSIONER MILLS: Okay.

DEPUTY DIRECTOR ALLEN: Yes. With the demand it is -- our leverage point might not be as strong, but one thing just to add onto your conversation with Nick. The importance of investing in license properties and special papers, it attracts casual players and that is one of our continuous goals is to increase our playership among causal players so we can grow our sales responsibly. So, those are the types of things that our players really respond to. So, we have to offer products that will reach those players in addition to our core players who have been loyal to us throughout this pandemic. So, these types of games and the plan next year will allow us to do that.

COMMISSIONER MILLS: Great. Thank you.

CHAIR AHERN: All right. So, for clarification, Lottery staff recommends that the Commission approve an increase in the expenditure authority and an extension of SGI's Instant Ticket printing contract for one year to November 30th, 2023. The proposed extension will add \$48

million to the contract for a maximum authorized contract expenditure amount of \$224 million. Are there any other questions from the Commissioners? All right. Does any member of the public wish to address the Commission at this time regarding Action Item 8a1? Hearing none. Do I hear a motion to approval Action Item 8a1 Scientific Games International, Incorporated, Instant Ticket printing contract extension and increase expenditure authority?

COMMISSIONER MILLS: I'll move to approve.

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

COMMISSIONER ALVIDREZ: I second.

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

MS. TOPETE: Commissioner Kirtman? I'm sorry. Commissioner Stern?

COMMISSIONER STERN: Here.

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. All right. Motion is granted. We'll go to Action Item 8a2.

DEPUTY DIRECTOR ALLEN: Thank you.

CHAIR AHERN: 8a2.

DEPUTY DIRECTOR ALLEN: 8a2. This is Pollard Banknote Limited Instant Ticket Printing Contract Extension and Increase in Expenditure Authority.

As a secondary Scratchers printing vendor, Pollard has also proven to be a crucial and engaged business partner that has helped the Lottery achieve our record sales by providing exceptional products as well as strategic insights on industry trends. Pollard also has been very proactive in helping us address our changing needs during the pandemic.

The current maximum authorized expenditure authority is \$105 million with approximately \$31 million of funding available for the extended term. To allow for sufficient funding, an increase of \$7.8 million is recommended. Our recommendation is that the Commission approve an extension of Pollard Banknote's printing contract for one year and an increase in expenditure authority. The new contract will go through November 30th, 2023 and have a maximum authorized amount of \$112.8 million.

CHAIR AHERN: All righty. Thank you. Do any of the Commissioners have any questions or comments on Action Item 8a2? Hearing none, does any member of the public want to address the Commission at this time regarding Action Item 8a2? Hearing none, do I hear a motion to approve Action Item 8a2 Pollard Banknote Limited Instant Ticket Printing

Contract Extension and increase in expenditure authority?

COMMISSIONER MILLS: Move to approve.

COMMISSIONER ALVIDREZ: Second.

CHAIR AHERN: We have a motion and a second, will the secretary please call the roll?

MS. TOPETE: Commissioner Stern?

COMMISSIONER STERN: Yes.

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. All right. That motion is approved as well. Moving on to Action Item 8a3, Sharon you are still up to bat.

DEPUTY DIRECTOR ALLEN: Okay. This is my last one for now. This is IGT Global Solutions Corporation Instant Ticket Printing Contract Extension.

As the other secondary vendor, IGT also plays an integral part in the Lottery's overall success with Scratcher sales and proven to be responsive partner particularly during the pandemic. The Lottery was able to ensure our distribution of its games in part because of the orders and reorders of certain IGT games even when they faced capacity issues in supply chains themselves -- supply

chain issues themselves. With approximately \$14 million of funding remaining, staff estimates it will be sufficient for the one-year extension. We recommend that the Commission approve an extension of the IGT Instant Ticket printing contract for one year to also expire on November 30th of 2023 with the maximum expenditure amount remaining at \$25 million. Any questions on this one?

CHAIR AHERN: Okay. Thank you.

DEPUTY DIRECTOR ALLEN: All right.

CHAIR AHERN: Do any of our Commissioners have any questions or comments regarding Action Item 8a3? All right. Does any member of the public want to address the Commission at this time regarding Action Item 8a3? Seeing none, we will move on. Do we have a motion to approve Action Item 8a3 IGT Global Solutions Corporation Instant Ticket printing contract extension?

COMMISSIONER STERN: Motion to approve 8a3.

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

COMMISSIONER MILLS: I'll second.

CHAIR AHERN: We have a motion and a second, will the secretary please call the roll?

MS. TOPETE: Commissioner Stern?

COMMISSIONER STERN: Yes.

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes.

DEPUTY DIRECTOR ALLEN: Thank you.

CHAIR AHERN: Thank you very much, Sharon.

Sanitation crew is on the move. Okay. Our next item is Action Item 8b Amendment of Interagency Agreement with the Department of Rehabilitation. And Sara is up. Good morning, Sara.

DEPUTY DIRECTOR SHEIKHOLISLAM: Good morning, Commissioners. My name is Sara Sheikholislam, and I'm the Deputy Director over internal audits. Sanitize and talk at the same time.

I am reporting on the Amendment to the Interagency Agreement with the Department of Rehabilitation also known as DOR. The Lottery is in an interagency agreement with the DOR that provides inspection services for our Retailer Access Program. The Retailer Access Program ensures individuals with disabilities have access to our Lottery products. Retailers must comply with the program and the regulation. The Lottery must select -- randomly select 5 percent for all active retailers and DOR performs the inspections. That is about 1,100 to 1,200 inspections a

year.

DOR has provided quality inspections and excellent customer service to both Lottery retailers and Lottery staff since 2013. DOR is a primary state agency with expertise in accessibility compliance. The current IAA, interagency agreement, has been in place since July of 2019. The agreement is for three years with a one-time option to extend for three additional years. The current maximum agreement is \$1,071,000; \$362,000 have been expended for invoices paid through October 2021; \$709 million remains for services not invoiced from November 2021 through June 2022.

Extending services for an additional three years through June 2025 will permit the Lottery to extend services with DOR without interruption. Additional funding will be necessary. The estimated three-year cost is \$945 thousand. The current contract will require an additional \$500,000 to reimburse services through the end of the contract term. Lottery staff recommends that the California State Lottery Commission approve a final option to extend the term in additional three years through June 2025 and augment contract funds by \$500,000 bringing the maximum authorized contract amount to \$1,571,000. I can answer any questions you might have.

CHAIR AHERN: All right. Thank you. Do any of the Commissioners have any questions or comments on Action

Item 8b? Seeing none, does any member of the public want to address the Commission at this time regarding Action Item 8b? Hearing none, do I hear a motion to approve Action Item 8b, the Amendment on an Interagency Agreement with the Department of Rehabilitation?

COMMISSIONER ALVIDREZ: I'll move to approve.

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

COMMISSIONER STERN: Second.

CHAIR AHERN: A motion and a second, will the secretary please call the roll?

MS. TOPETE: Commissioner Stern?

COMMISSIONER STERN: Yes.

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. All right. Sara, thank you. Motion passes. Safety protocols continue. Next up we will Action Item 8c in regard to Microsoft Unified Performance Level Support Agreement. And we will be calling on Jennifer Chan.

DEPUTY DIRECTOR CHAN: Good morning, Commissioners and Chairman. My name is Jennifer Chan, and I am the Deputy

Director of the Information Technology Services Division.

CHAIR AHERN: Good morning.

DEPUTY DIRECTOR CHAN: I am here to present Item 8c. Item 8c is a request to renew the Microsoft Unified Performance Level Support Agreement for a period of 12 months. As a Microsoft Shop, the Lottery has purchased specialized expert support for all Microsoft software products and services through the Microsoft Premiere Support. This provides the Lottery with specialized technical expertise, support and issue and incident resolution beyond the first level trouble shooting that information technology services staff are responsible for.

In 2019, the Lottery replaced its Microsoft Premiere Support agreement with an upgraded support model called Microsoft Unified Support. This change was made based on the Lottery's increased support needs and the evaluation of the best value of the support model's available.

With the Microsoft Unified Support, there are two tiers that are available. One is advanced and the other is performance. The Lottery selected the performance tier because it provides a maximum level of support including specifically a response time of 30 minutes or less for critical incidents. Since 2019, the cost of the Microsoft Unified Performance Level Support Agreement has increased

incrementally but has not previously met the threshold to require Commission approval. However, for fiscal year 2022-23, there are several critical Lottery technology initiatives that will require a team of specialized and dedicated support from expert level Microsoft-designated support engineers also called DSEs in addition to what is covered under the agreement. This additional need is the reason that the cost of the Microsoft Unified Performance Level Support Agreement is higher than in previous years.

For fiscal year 2022-23, the Microsoft Unified Performance Level Support Agreement and the Microsoft DSEs will support technology infrastructure initiatives related to cloud services, Azure, business productivity tools such as Microsoft Word and Excel, collaboration tools such as Microsoft Teams and SharePoint and data center tools that provide the critical infrastructure functions of virtualization, application development, network management, and database administration.

Of the four critical initiatives, as I mentioned, the first is Azure cloud infrastructure expansion and optimization. This enables the Lottery to address its aging end-of-life backup data center infrastructure and migrate to the cloud. Thereby reducing the overall hardware maintenance costs and support costs while also improving our disaster recovery capabilities.

The second is data warehouse modernization and migration. This aligns with our Lottery cloud strategy by leveraging cloud services and ensuring the continuity of our data warehouse capabilities. This is a continued modernization effort that provides the Lottery the ability to implement functionality like predictive analytics that will help with forecasting things such as sales.

The third is migration to SharePoint online. This also aligns with the Lottery's cloud strategy and enables the Lottery to address end-of-life and legacy components, improve our disaster recovery capabilities and increase our security posture while providing scalability and reliability while reducing our overall maintenance and support costs required for on prem hardware.

And the fourth is modernizing tools to support inhouse application development in Azure. This supports the Lottery's continued modernization of its internally developed applications and services by standardizing our development practices using Microsoft Power Platform.

Continuing the Microsoft Unified Performance Level Support Agreement is essential to conducting Lottery business and must remain uninterrupted. Lottery staff recommend that the Commission approve the renewal of the Microsoft Unified Performance Level Support Agreement. The total contract amount is \$829,072 with a term date of July

6th, 2022 through July 5th of 2023. And I am happy to answer any questions you may have.

CHAIR AHERN: All right. Thank you, Jennifer. Do any of our Commissioners have any questions or comments regarding Action Item 8c?

COMMISSIONER MILLS: I have one comment. Thank you, Jennifer, for the presentation. I just wanted to acknowledge and recognize the utilization of the leverage procurement agreement with DGS. I just think that is a really smart move. Not only does it save the time and cost of going through your own RFP process, but it really leverages the buying power of the entire state of California so that gives me great comfort that we are indeed getting best price for these services. So, well done.

DEPUTY DIRECTOR CHAN: Thank you.

CHAIR AHERN: All right. Thank you.

COMMISSIONER STERN: Just one quick question as it relates to the Epicore implementation. Does that sit on top of Microsoft infrastructure?

DEPUTY DIRECTOR CHAN: I'm sorry?

COMMISSIONER STERN: Does the Epicore implementation run on top of Microsoft?

DEPUTY DIRECTOR CHAN: It runs off of or has some integration points to some of the Microsoft operating pieces, but it is a separate implementation and a separate

application.

COMMISSIONER STERN: Okay. Thank you.

CHAIR AHERN: All right. And formalities, does any member of the public want to address the Commission at this time regarding Action Item 8c? Hearing none, do I hear a motion to approve Action Item 8c Microsoft Unified Performance Level Support Agreement?

COMMISSIONER MILLS: I'll move to approve.

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

COMMISSIONER STERN: Second.

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

MS. TOPETE: Commissioner Stern?

COMMISSIONER STERN: Yes.

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. All right, Jennifer. Thank you very much.

DEPUTY DIRECTOR CHAN: Thank you.

CHAIR AHERN: Next Action Item is 8d. And 8d has been removed from the agenda as stated earlier. So, we are

moving on to Action Item 8e, Amendment to Statewide Modular Systems Furniture Services Contract, Tiffany Donohue.

DEPUTY DIRECTOR DONOHUE: Good morning.

CHAIR AHERN: Good morning, Tiffany.

DEPUTY DIRECTOR DONOHUE: Good morning, Chief Deputy Chima.

CHIEF DEPUTY DIRECTOR CHIMA: Good morning.

DEPUTY DIRECTOR DONOHUE: It's good to see everybody. As Commissioner Ahern indicated, my name is Tiffany Donohue. I'm the Deputy Director of the Operations Division. Hopefully, I'm not too loud on the microphone. I speak kind of loudly. I'm here to present Agenda Item 8e seeking the Commission's approval of an amendment to the Lottery's agreement with Western Contract Furnishers.

This amendment will extend the term of the Lottery's agreement for an additional two-year period through June 14th, 2024. Apologies, I do have to lower my mask. It fogs up my glasses and I can't see.

Western Contract Furnishers provides the Lottery with design services, provides labor and modular components required to maximize the Lottery's facility's square footage and to provide a better built environment for all of our employees statewide. The Commission approved the Lottery's agreement with Western Contract Furnishers in June 2019 for \$300,000 and a term of three years. I did want to take an

opportunity to correct an error in the written agenda item regarding the agreement with Western Contract Furnishers being competitively bid. That was incorrect. The selection of Hayworth Furniture, which this contractor provides, was part of a competitive process, but the agreement with Western Contract Furnishers was let via sole source as they are only supplier of Hayworth Furniture in Northern California. And that is why we chose to go with that vendor.

In November of 2019, the Commission subsequently approved an amendment to increase funding by \$2,420,000 for a project to optimize the Lottery's Headquarters' building, which had reached capacity. Shortly after the Commission approved that amendment, the COVID-19 pandemic hit, and the Lottery put a hold on all renovation projects statewide thereby eliminating the need to address that space reconfiguration and optimization project.

This calendar year, the Lottery will be implementing a formal telework program and as part of that program, these services will again be required. The services that Western Contract Furnishers provides also support the Lottery's payment of claims at the District Offices. Both of these efforts require modular furniture procurement, reconfiguration and installation services. The Lottery does not require additional funding to progress

these two projects as little of the contract budget has been spent over the last two years and the Lottery anticipates the remaining balance is sufficient to cover those projects.

In conclusion, the Lottery seeks the Commission's approval of an amendment to its agreement with Western Contract Furnishers to extend the term of our agreement for an additional two-year period through June 14, 2024. And I can answer any questions you may have.

CHAIR AHERN: Okay. Tiffany, thank you. Do you have a question?

COMMISSIONER MILLS: I do have a question. Hi, Tiffany. Thank you for the presentation. Can you say a little bit more about the sole source contract? Specifically, what are the products or services that are being provided and then what steps did the Lottery take to ensure we were getting best price out of this sole source contract?

DEPUTY DIRECTOR DONOHUE: Absolutely. So, the sole source, it really is more of like a regional proprietary supplier situation, but the way that the Lottery Act defines a sole source, it really does kind of fall under that category. And so, Hayworth Furniture, the Lottery went through a competitive process laying out their specifications before they came into this facility and Hayworth was the selected furniture provider from that

competitive process. And then from that point, then the Lottery looked at who could supply that furniture for the Lottery, and it is Western Contract Furnishers.

COMMISSIONER MILLS: Okay.

DEPUTY DIRECTOR DONOHUE: In addition to that, they do provide designing services for each of our floor plates. So, they help us understand how we can best utilize our internal space, what modular configuration setups would best support the type of business that the Lottery does on a daily basis. And so, they help us design that. They also provide the installation providers, which is the labor of that agreement to come in and install the designed concepts of that modular reconfiguration project.

As far as the labor requirements, those are per diem type labor providers and so, we are held to certain requirements in who we secure and the rates that we pay them. So, we do not have a lot of flexibility in best value on that because it is defined. In terms of cost for design services and the furniture, we do do some price comparison just to make sure that we are in a good ballpark as to what we are spending, but we really are, you know, kind of committed to the Hayworth product at this point.

In the future, as we continue to grow and evolve, the Lottery does plan to put this particular service contract back out to bid to see what other type of

opportunity we can find in terms of getting providers and if there is better value to be had out there.

COMMISSIONER MILLS: All right. Thank you.

DEPUTY DIRECTOR DONOHUE: Does that answer your question?

COMMISSIONER MILLS: It did. Thank you.

CHAIR AHERN: Any other questions? All right. 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 Action Item 8e, Amendment to Statewide Modular Systems Furniture Services Contract?

COMMISSIONER MILLS: I'll move to approve.

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

COMMISSIONER STERN: Second.

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

MS. TOPETE: Commissioner Stern?

COMMISSIONER STERN: Yes.

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. All right. Tiffany, thank you

very much. Motion is approved. Next, we will move on to Action Item 8f. (Inaudible) again for the second time today, Sharon Allen. Sharon is going to give us a brief overview on 8f1 through 8f3 and then proceed each item for voting purposes. This is about Contract Amendments Concerning Bulk Delivery Services.

DEPUTY DIRECTOR ALLEN: All right. Hi, again.

CHAIR AHERN: And hello again.

DEPUTY DIRECTOR ALLEN: It's been a long time. All right. I will do the overview first. The Lottery's two distribution centers are responsible for shipping Scratchers' products to our 23,000 retailers. In addition, they also move Scratchers and point-of-sale materials between the two distribution centers and to the district offices. Typically, these shipments are large, bulk quantities on freight pallets. It is necessary to move product between the two distribution centers to balance inventory. The distribution centers receive the initial shipment of Scratchers and point-of-sale from the manufactures. Due to sales and campaign schedules, these initial shipments often become unbalanced, and inventory needs to be transported from one distribution center to the other.

The distribution centers also support the efforts of the field sales team to service retailers by shipping

bulk quantities of Scratchers and point-of-sale to the Lottery's nine district offices. The needs of each DO also vary depending on sales trends and campaign activity. In order to meet retailer needs and avoid out of stocks, it is critical for the Lottery to have a fast, secure, and reliable method of balancing inventory between distribution centers and to transport product and point-of-sale to the district offices when needed.

The Lottery has been using informal procurements and short-term purchase orders. However, the Lottery identified that utilizing contracted vendors would provide more timely and secure service, thus providing better service to our retailer partners while also better maximizing sales.

In January of 2022, an IFB for these services was released with a contract term of three years with an option to extend for two additional one-year terms. However, due to the unique logistical needs of each type of shipment, the IFB allowed vendors best suited for each type of delivery to bid on the work. As a result, the evaluation team identified three vendors to provide these services. One to ship from distribution center to distribution center, one to ship from the distribution center to the district offices in Northern California, and one to ship from the distribution center to the district offices in Southern California.

The three vendors were selected based solely on price. These vendors will provide the best cost value to the Lottery while meeting the Lottery's service and security requirements. Additionally, the fixed rate price schedule provided by each vendor offered the lowest amount of price increases through the life of the contracts.

I'd be happy to answer any questions now or we can go into the three contract items.

CHAIR AHERN: I think you answered my questions during the briefing. Thank you.

DEPUTY DIRECTOR ALLEN: Okay. The new service or new contracts for us. All right. The first item is Item 8f1 Mytess Designated Bulk Carrier Services Contract. Mytess was selected as the vendor to provide designated bulk carrier services between the two distribution centers. Using historical averages and projected growth, the Lottery estimates a total contract expenditure authority of \$400,000 for the three-year contract is needed. We recommend that the Commission approve the award of the designated bulk carrier services contract to Mytess for a term of three years and a maximum authorized contract expenditure of \$400,000.

CHAIR AHERN: Okay. Do any of the Commissioners have any questions or comments regarding Action Item 8f1? I just had a comment. I didn't realize your guys were moving

things that weighed up to 90,000.

DEPUTY DIRECTOR ALLEN: Yeah, a big pallet. That's why we need the big tractor trailers to go from distribution center to distribution center, big pallets of Scratchers.

CHAIR AHERN: Well, that's interesting and informative. So, thank you. Okay. No other questions, we will go to members of the public want to address the Commission at this time regarding Action Item 8f1? Hearing none, do I hear a motion to approve Action Item 8f1, the Mytess Designated Bulk Carrier Services Contract?

COMMISSIONER STERN: Motion to approve 8f1.

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

COMMISSIONER ALVIDREZ: I second.

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

MS. TOPETE: Commissioner Stern?

COMMISSIONER STERN: Yes.

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. All right, Sharon 8f1 is

approved. We will move on to 8f2.

DEPUTY DIRECTOR ALLEN: Thank you. This is PacTrack Designated Bulk Carrier Services Contract. PacTrack was selected as the vendor to provide the Lottery with designated bulk carrier services from the Southern Distribution Center to the five southern district offices. Using historical averages and projected growth, we estimate the total expenditure authority needed is \$478,000 for the three-year contract. We recommend the Commission approve the award of this contract to PacTrack for a term of three years and maximum authorized contract expenditure of \$478,000. Any questions on PacTrack?

CHAIR AHERN: All right. Any Commissioners have any questions or comments regarding Action Item 8f2? Only thing that is hard in the briefing is to keep up with all your initials that you are using. I had to write them down to keep up with you.

DEPUTY DIRECTOR ALLEN: I gotcha.

CHAIR AHERN: All right. Does any member of the public want to address the Commission at this time regarding 8f2? Seeing none, will do a motion to approve Action Item 8f2, the PacTrack Designated Bulk Carrier Services Contract.

COMMISSIONER MILLS: Move to approve.

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

COMMISSIONER STERN: Second.

CHAIR AHERN: We have a motion and a second, will the secretary please call the roll?

MS. TOPETE: Commissioner Stern?

COMMISSIONER STERN: Yes.

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. All right. Ladies and gentleman, we continue on with the Great Sharon will proceed with 8f3.

DEPUTY DIRECTOR ALLEN: All right. This is GG Delivery Designated Bulk Carrier Services Contract. GG Delivery was selected as the vendor to provide the Lottery with designated bulk carrier services from the Northern Distribution Center to the four northern district offices. Using historical averages and projected growth, we estimate the total expenditure authority of \$320,000 will be needed. We recommend the Commission approve the award of this contract to GG Delivery for a term of three years and maximum authorized contract expenditure authority of \$320,000.

CHAIR AHERN: Okay. Any Commissioners have any

questions regarding Action Item 8f3? Seeing none, do we have a motion to approve -- excuse me. Does any member of the public want to address the Commission at this time regarding 8f3? Hearing none, do I hear a motion to approve Action Item 8f3, the GG Delivery Designated Bulk Carrier Services Contract.

COMMISSIONER STERN: Motion to approve.

CHAIR AHERN: We have a motion. I'll make the second. And I haven't said that all day. Will the secretary please call the roll?

MS. TOPETE: Commissioner Stern?

COMMISSIONER STERN: Yes.

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. All right. Sharon, thank you very much for all your hard work. Very well done. Very informative briefing for us. I appreciate the time and effort.

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

COMMISSIONER MILLS: I had a comment or a request

just thinking about the presentation we heard today on our long-range goals and trying to change perception or improve perception of the Lottery and getting us grounded and why we are here, which is our contributions to education. I just wondered if we could consider into the future adding, you know, a brief story-telling aspect to our meetings as we, you know, we start with sales and all of that, but also adding some stories around how schools are using our contributions and how those contributions are impacting California students.

I think that would just be -- I don't want to add the length of our meetings, but just if we could gather, if it was possible to gather those types of stories and tell a short story to get us grounded in our mission, I would really appreciate that.

CHAIR AHERN: That's good. Thank you.

CHIEF DEPUTY DIRECTOR CHIMA: Yes. Absolutely. I do think that we can do that. I know that our Deputy Director of Public Affairs and Communications is actually working on something very similar to what you suggested and to utilize that in social media to make people understand because so many people are telling us that they didn't realize that the money went to education. So, we are really working on trying to get that process out, but we can also add something to future Commission meetings. Absolutely.

COMMISSIONER MILLS: Excellent. Thank you.

CHAIR AHERN: Okay. I'd like to note that the Commission will elect its chairperson and vice chairperson at the June Commission Meeting that is upcoming. A Commissioner can self-nominate another Commissioner to self-serve in either role. And please direct your nominations to me, and we will pass that on to Alva and our Council so that it can be done properly.

Is there anything else that we need to cover? Our looking at our team here. We are all good to go. We have scheduled meetings tentatively scheduled for June 30th, 2022. Item Number 11 is Public Discussion. We had no public comment, but I will ask formally are there any members of the public that want to address the Commission at this time. Hearing none, we will move on to adjournment. And again, we would like to welcome our newest Commissioner, Tiffani. Tiffani, thank you very much for joining us. It is nice to have a crew up here. So appreciate the effort.

With that, I believe we can adjourn. Thank you for your hard work. You guys go out and enjoy the rest of the day.

(End of Recording)

(MEETING ADJOURNED)

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) ss.
COUNTY OF SACRAMENTO)

 This is to certify that I transcribed the foregoing pages 1 to 87 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 30th day of May, 2022.

Regina S. Harris

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