

STATE OF CALIFORNIA
TRANSCRIPT OF PROCEEDINGS

CALIFORNIA STATE LOTTERY COMMISSION
COMMISSION MEETING

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PLACE: California State Lottery Headquarters
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Sacramento, California 95811

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Commissioner

ROWENA LIBANG-BOBILA
Vice Chair of the Commission
Commissioner

PETER STERN
Commissioner

KEETHA MILLS
Commissioner

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Director

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Tiffany Donohue
Deputy Director of Operations

Harjinder Chima
Chief Deputy Director

Jeremy Linson
Acting Deputy Director of Security and Law Enforcement

Nicholas Buchen
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Roberto Zavala
Deputy Director of Internal Audits

Sharon Allen
Deputy Director of Sales and Marketing

Jim Hasegawa
Deputy Director of Business Planning

Elisa Topete
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Rebecca Estrella
Recording Secretary

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I N D E X

<u>Description</u>	<u>Page</u>
1. Call to Order	5
2. Pledge of Allegiance	5
3. Roll Call of Commissioners	5
4. Consider Approval of the Agenda	5
5. Approval of the Minutes of the September 26, 2019 Commission Meeting	6
6. DIRECTOR'S REPORT:	
a. Director's Comments	7
b. California State Lottery Facilities Development Update	16
7. CONSENT CALENDAR	
8. ACTION ITEMS	
a. Hispanic Market Advertising Services Contract	15
b. Extension of African American Services Contract	22
c. Request to Add Positions for the Sales and Marketing Division	25
d. Amendment for Internal Control System Contract	28
e. Windows 10 Refresh Project	31
f. Consolidated Communications Enterprise Services, Inc. Contract Amendment	33
g. Extension of KPMG Financial Audit Contract	35
h. Request to Add Positions to Support the Risk and Process Evaluation Section	37
9. Commissioner General Discussion	41

10. Scheduling Next Meeting -- November 21, 2019	41
11. Public Discussion	41
12. Adjournment	41

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1 **Thursday, November 21, 2019**

2 **Sacramento, California**

3 **--oOo--**

4 **CHAIRMAN AHERN:** Good morning, everyone. We'll
5 call the California State Lottery Commission meeting to
6 order, and we'll start with the Pledge of Allegiance, so if
7 you could all please stand and join me in saluting our flag?

8 *(The Pledge of Allegiance was recited.)*

9 **CHAIRMAN AHERN:** All right, thank you. All
10 right, Item Number 3, will the Secretary please call the
11 roll?

12 **MS. TOPETE:** Commissioner Kirtman? Commissioner
13 Stern?

14 **COMMISSIONER STERN:** Here.

15 **MS. TOPETE:** Commissioner Mills?

16 **COMMISSIONER MILLS:** Here.

17 **MS. TOPETE:** Commissioner Libang-Bobila?

18 **COMMISSIONER LIBANG-BOBILA:** Here.

19 **MS. TOPETE:** Chairman Ahern?

20 **CHAIRMAN AHERN:** Here. All right. Item Number
21 4, Consider the Approval of the Agenda. Commissioners, does
22 anyone want to suggest any changes to today's agenda in any
23 respect?

24 **COMMISSIONERS:** No changes.

25 **CHAIRMAN AHERN:** Hearing none, I'll take a

1 motion to adopt the agenda.

2 **COMMISSIONER STERN:** Move the adoption of the
3 agenda.

4 **COMMISSIONER LIBANG-BOBILA:** Second.

5 **CHAIRMAN AHERN:** We have a motion and a second.

6 Will the Secretary please call the roll?

7 **MR. TOPETE:** Commissioner Stern?

8 **COMMISSIONER STERN:** Yes.

9 **MR. TOPETE:** Commissioner Mills?

10 **COMMISSIONER MILLS:** Yes.

11 **MR. TOPETE:** Commissioner Libang-Bobila?

12 **COMMISSIONER LIBANG-BOBILA:** Yes.

13 **MR. TOPETE:** Chairman Ahern?

14 **CHAIRMAN AHERN:** Yes. All right, Item Number 5

15 is the Approval of the Minutes. Are there any corrections

16 to the minutes? Is there a motion to approve the minutes

17 for the September 26th, 2019 Commission Meeting?

18 **COMMISSIONER LIBANG-BOBILA:** Motion to approve
19 the minutes.

20 **COMMISSIONER STERN:** Second.

21 **CHAIRMAN AHERN:** We have a motion and a second.

22 Will the Secretary please call the roll?

23 **MR. TOPETE:** Commissioner Stern?

24 **COMMISSIONER STERN:** Yes.

25 **MR. TOPETE:** Commissioner Mills?

1 **COMMISSIONER MILLS:** Abstain.

2 **MR. TOPETE:** Commissioner Libang-Bobila?

3 **COMMISSIONER LIBANG-BOBILA:** Yes.

4 **MR. TOPETE:** Chairman Ahern?

5 **CHAIRMAN AHERN:** Yes. Okay, Item Number 6. We
6 are moving on to the next agenda item for the Director's
7 Report -- the great Alva Johnson.

8 **MR. JOHNSON:** Thank you, Mr. Chairman. Good
9 morning, everyone.

10 **CHAIRMAN AHERN:** Good morning.

11 **MR. JOHNSON:** Mr. Chairman, Commissioners,
12 Members of the Public, Lottery Staff, we are very pleased to
13 convene this meeting today of the California State Lottery
14 Commission. We have about eight different items for action
15 for you today. A couple of them are ratification items, one
16 concerning the California Highway Patrol Inter-Agency
17 Agreement and another one considering a contract with
18 Stanley Convergent Security Solutions. Also on the agenda
19 today we have a Request to Add Positions; an Amendment to a
20 Modular Furniture Contract; Appointment of California State
21 Lottery Audit Committee Members for your consideration;
22 Amended Regulations for SuperLotto Plus; Extension of
23 Control Group Companies, LLC Service Contract; and also,
24 lastly, a Communication Effectiveness Tracking Study
25 Services Contract Amendment. I'm going to move on now to a

1 brief summary of our progress to date in sales. Through the
2 first 20 weeks of the fiscal year, total Lottery sales
3 through November 16th are over \$2.5 billion. This is about
4 0.07 percent under the year-to-date goal and is about 12
5 percent lower than through the first 20 weeks of last fiscal
6 year. Our multi-state games, Powerball and Mega Millions,
7 are the main reason for sales being below goal so far this
8 year. Combined, their sales are just \$225 million. This is
9 due to the lower jackpots we have seen this fiscal year. I
10 have a slide later in my presentation that provides greater
11 detail on this point. Scratcher sales are over \$1.9 billion
12 through mid-November and are 0.04 percent above sales
13 through the same time last year. However, Scratcher sales
14 are currently about 0.03 percent below their goal for the
15 first four-and-a-half months of the fiscal year or about a
16 \$60 million shortfall. SuperLotto Plus sales of \$101
17 million are 0.01 percent higher than last year and are
18 higher than even Powerball through the first 20 weeks of the
19 year. Daily Games have sales just shy of \$150 million and
20 are above goal and last year's sales. Hot Spot continues to
21 perform well with almost \$124 million, 0.04 percent above
22 goal and 10 percent ahead of the first 20 weeks of last
23 year. In addition to sales, we also assess how the
24 Lottery's performing in terms of its profit goals. These
25 calculations are done monthly. So through the week ending

1 November 2nd, our sales were running at 93 percent of goal,
2 and our profits were at 91 percent of goal. Because the
3 sales performance of our multi-state jackpot games was much
4 weaker than our Scratchers products, and these Draw games
5 have significantly higher profit margins, this led to our
6 estimated profit being further behind its goal compared to
7 the sales metric. Total year-to-date sales are \$184 million
8 shy of goal, while profits are short of their goal by \$47
9 million. Scratchers profits are just \$4 million below goal.
10 Draw games are the main reason total Lottery sales are below
11 goal, with a deficit of \$124 million in sales due to the
12 lower jackpots this year. So far this year, the multi-state
13 games, Mega Millions and Powerball, which are the big
14 drivers of jackpot game sales, have only had two jackpots
15 over \$200 million. At this same time last fiscal year, we
16 already had 32 jackpots over \$200 million, including two
17 jackpots of \$1 billion or more. That was from Mega Millions
18 in October 2018. The annual fiscal year goals estimate 58
19 jackpots between the two games, at \$200 million or more over
20 the course of a year. Almost halfway through the year, we
21 only hit 0.03 percent of that. With the lower jackpots,
22 sales are lower than goal and last year, resulting in lower
23 than goal profits. As you may recall from the first slide,
24 total Scratcher sales are over \$1.9 billion. While this is
25 0.03 percent short of our goal, it is nearly 0.04 percent

1 higher than sales through the same time period last fiscal
2 year. Sales during the summer months, which correspond to
3 the first quarter of our fiscal year, always decline from
4 the amount seen in the prior quarter. This summer, the drop
5 was just 0.08 percent compared to the 0.095 percent decline
6 seen during the summer of 2018, and the next several months
7 typically see Scratcher sales at their highest levels of the
8 fiscal year. In fact, the first week of November saw weekly
9 Scratcher sales surpass \$100 million for the first time
10 since July. One factor that will lead to higher sales is
11 the holiday season and giving these tickets as gifts. The
12 Lottery recently launched four new seasonal games -- \$1.00
13 Holiday Magic, \$2.00 Merry Crossword, \$10.00 Seasons
14 Greetings, and the \$20.00 ticket named 2020, leading into,
15 hopefully, a momentous new year ahead. With just four weeks
16 on the market, the 2020 game has seen stellar sales of more
17 than \$38 million. This is 19 percent higher than the
18 average \$20.00 game. In summary, while total sales through
19 mid-November are shy of their year-to-date goal, they are
20 very likely to improve over the course of the year. First,
21 big jackpots have been virtually nonexistent so far this
22 year, and statistically should return to more normal levels
23 before the fiscal year ends. Second, some recent Scratcher
24 sales figures indicate some strengths and positive signs for
25 the upcoming months. Recently, industry sales information

1 became available for last fiscal year. We wanted to present
2 some of the highlights of this sales data. California sales
3 of \$7.39 billion was the second highest among U.S.
4 lotteries, trailing the New York Lottery. However, as we
5 have for the past several years, the gap between New York
6 and California has been shrinking. Fiscal Year 2018-19
7 sales in California grew by 0.06 percent over the prior
8 fiscal year. California sales have been growing at a higher
9 rate than New York for the past several years, which allowed
10 us to narrow the gap between the two states. However, this
11 past fiscal year saw Florida and Texas have stronger sales
12 growth than California, with year-over-year increases of
13 0.07 percent and 11 percent respectively. This means that
14 these two states are closing in on us. The average U.S.
15 lottery saw its sales grow by 0.07 percent this past fiscal
16 year.

17 **CHAIRMAN AHERN:** Alva, do we know why Texas is
18 doing so well?

19 **MR. JOHNSON:** I don't know the specific answer to
20 that, but I know that we have our Deputy Director of
21 Business Planning and Research, Jim Hasegawa here, who can
22 provide a little more detail on that. To my right, sorry.
23 I'm a bit reversed here. (Inaudible), can you fill us in on
24 that?

25 **MR. HASEGAWA:** Yes, Texas' instant games have been

1 drawing at a higher rate than ours, and they do have some
2 other price points than we do. Actually, their growth has
3 been pretty strong over the past three years.

4 **CHAIRMAN AHERN:** And is their population is
5 increasing as well?

6 **MR. HASEGAWA:** Yeah, their population is growing,
7 but also California's is slightly growing as well. I would
8 attribute it more to some of their product development than
9 the population.

10 **CHAIRMAN AHERN:** Okay.

11 **MR. JOHNSON:** Do you know what their gross
12 revenue is, offhand?

13 **MR. HASEGAWA:** I think I brought it here. Texas
14 (inaudible) I think it's, like, a \$1.4 billion (inaudible)
15 -- \$6.25 billion.

16 **CHAIRMAN AHERN:** Great, thank you.

17 **MR. JOHNSON:** All right. Thanks, Jim. Any
18 further questions on that, Chairman?

19 **CHAIRMAN AHERN:** And excuse me; I didn't mean
20 to throw you off your pace; just was interested.

21 **MR. JOHNSON:** No worries, no worries. We welcome
22 the questions. Thank you. Almost done here. Let me just
23 finish with the last couple of slides. In terms of other
24 rankings, our Scratchers sales were tops in the U.S. for
25 instant tickets. We also generated the most sales for

1 instant tickets. We also generated the most sales for both
2 Mega Millions and Powerball last year. Our SuperLotto Plus
3 game had the second-highest sales figure for an in-state
4 lotto game. Florida was first in this category. Compared
5 to similar games in the U.S. lottery industry, our Hot Spot
6 game placed just sixth in terms of sales. Finally, annual
7 per capita sales in California were \$187.00 this past fiscal
8 year. This puts us at just 25th in the nation. Here is the
9 chart showing all the U.S. lotteries in terms of per capita
10 sales. As you can see, California is just below the
11 industry median of \$220.00, meaning that there is still
12 growth potential here in California. Massachusetts has the
13 highest per capita sales figure in the U.S. at \$794, and New
14 York has the third highest per capita figure at \$421.00 for
15 the year. If California's per capita sales were at the U.S.
16 average, our annual sales would be \$8.7 billion, about \$1
17 billion and a little bit more than that more than what we're
18 making right now. And finally, if California had per capita
19 sales at the level seen in New York, our annual sales would
20 be over \$16 billion, or double what we're making now. So
21 that concludes the presentation. I want to thank again the
22 Business Planning and Research Team for helping with the
23 facts and figures on this. Are there any other questions
24 regarding our sales figures?

25 **COMMISSIONER LIBANG-BOBILA:** I have a question

1 about the Scratchers. Do we have any holiday packages that
2 we can, like, we can tell friends? In the years past, we
3 used to come up with envelopes with Scratchers in it, and do
4 we have any of that this year?

5 **MS. ALLEN:** We're not doing any special
6 packaging, but we have the four seasonal-themed games, and
7 then doing some different marketing and communications to
8 allow customers to actually package them themselves --

9 **COMMISSIONER LIBANG-BOBILA:** Okay.

10 **MS. ALLEN:** -- different ways that they can
11 play them, including using social media influencers, ways
12 like, you can kind of DIY, make gifts out of Scratchers and
13 also in-person activations to help package the Scratchers as
14 great gifts.

15 **MR. JOHNSON:** Commissioners, Sharon Allen, our
16 Deputy Director of Sales and Marketing and her team, have
17 been working very, very hard on the seasonal sales for our
18 Scratchers projects, and they have some terrific ideas. A
19 lot of these are still under wraps, but they've shown me
20 some things that are exciting.

21 **COMMISSIONER LIBANG-BOBILA:** Right. I just want
22 to be able to tell clients with businesses to use the
23 Scratchers as holiday gifts to employees.

24 **MR. JOHNSON:** Is there anything further we can
25 share right now?

1 **MS. ALLEN:** Yeah, we're absolutely doing the
2 "Give the gift of Scratchers;" it's the main thrust of our
3 campaign -- "Give joy; give Scratchers. In the past, we had
4 at point of sale an envelope, but we're encouraging people
5 to make their own packaging and ways to display the gifts,
6 but we have a lot of great selection -- the 2020; the
7 Season's Greetings has three different scenes, and also the
8 tickets have a certain kind of special paper to really make
9 them shine.

10 **COMMISSIONER LIBANG-BOBILA:** Great, thank you.

11 **CHAIRMAN AHERN:** All righty, thank you, Alva.

12 **MR. JOHNSON:** Okay, thanks very much.

13 **CHAIRMAN AHERN:** We have a Director's Report --

14 **COMMISSIONER LIBANG-BOBILA:** Hold on.

15 **MR. JOHNSON:** Sorry, I just had one more question
16 on the topic.

17 **CHAIRMAN AHERN:** -- Alva?

18 **COMMISSIONER STERN:** Sorry to slow everyone down,
19 but I think the seasonal offering is a great idea. Looking,
20 historically speaking, what have those offers done from a
21 forecast perspective and revenue-uptick perspective; do we
22 have a sense of what that would contribute to revenue-wise?

23 **MR. JOHNSON:** I think Jim would be best able to
24 answer that question.

25 **MR. HASEGAWA:** Yeah, (inaudible) again. I don't

1 know if this is in numbers. At the end of December, again,
2 because the Scratcher sales, how we actually report them to
3 the organization is through validations, validation sales
4 that investigate claims, so the last week in December
5 typically is one of the highest weeks of our fiscal year.
6 We know that probably about 10, 15 percent of the sales
7 during that time come apart from gifts. That's why we've
8 had some growing with the marketing efforts associated with
9 gift giving, and that's why you'll find that that's often a
10 time of -- some of our players, that's the only time they
11 buy in the year is giving these gifts in the holiday season,
12 and that's where we get that 15 from, percent of our sales
13 during those weeks coming from gifts, our estimates.

14 **COMMISSIONER STERN:** Great, thank you.

15 **MR. JOHNSON:** Okay.

16 **CHAIRMAN AHERN:** All right. We have some
17 beautiful pictures in our booklets. I think Tiffany's going
18 to tell us about our new facilities.

19 **MR. JOHNSON:** Okay.

20 **MS. DONOHUE:** Thank you. Good morning, Chair and
21 Commissioners.

22 **CHAIRMAN AHERN:** Good morning.

23 **MS. DONOHUE:** My name's Tiffany Donohue, and I'm
24 the Deputy Director of the Operations Division for the
25 California State Lottery, and I'm here this morning to give

1 you an overview and an update on the Lottery's Statewide
2 Facilities Program. Our program really consists of two
3 different categories of facilities. In the first category
4 are those facilities that were made part of the Lottery's
5 Facilities Master Plan. That plan was adopted in 2013, with
6 the primary purpose of transitioning the Lottery's
7 facilities from leased facilities to Lottery-owned
8 facilities. One of the benefits of the Facilities Master
9 Plan in undertaking that transition is long-term cost
10 savings. It is widely known and recognized that long-term
11 ownership of your facilities over leasing is a cost benefit
12 to an organization. In addition to that, the benefit to the
13 Lottery is that we have control over our facilities
14 statewide and that we are able to establish our branding,
15 both with the interior and exterior of the buildings. But I
16 would say more importantly is that across all of our
17 facilities, we have continuity and stability in our
18 operations, and that's really important for our sales team
19 and the staff who support them to go out and perform those
20 vital operational activities. As part of the Facilities
21 Master Plan, the Lottery was transitioning nine leased
22 facilities into ownership. As of November 2019, we've
23 completed eight of those nine facilities, with the final
24 facility to be occupied in April of 2020. That facility is
25 a ground-up construction of a state-of-the-art district

1 office in Milpitas, California, and we will be transitioning
2 our East Bay District Office staff from Hayward into that
3 facility. In your binders behind the Director's Report
4 section, there are exterior photos of the eight facilities
5 that have been completed. I think you'll see from those
6 photos, if you haven't had an opportunity to visit the
7 facilities, that there are consistent standards across the
8 buildings, and that they definitely lend themselves to the
9 brand perception of the Lottery. Also, in your binder is an
10 exterior elevation schematic of the Milpitas building to be
11 completed in April of 2020.

12 **CHAIRMAN AHERN:** The Milpitas building is just
13 a little bit south of the desired of location.

14 **MS. DONOHUE:** Perhaps.

15 **CHAIRMAN AHERN:** I'm just kidding.

16 **MS. DONOHUE:** It does have a very nice view.

17 **CHAIRMAN AHERN:** You've left my Alameda County.

18 **MS. DONOHUE:** Prior to the adoption of the
19 Facilities Master Plan, the Lottery actually did own three
20 different facilities -- the Headquarters facility on North
21 10th Street, our Sacramento District Office, as well as our
22 Northern Distribution Center in West Sacramento. Since the
23 time that we acquired those facilities, however, the
24 Lottery's needs have evolved and changed, and so the Lottery
25 will be taking on a couple of significant projects to make

1 sure that we can meet those changing needs of the
2 Department. The first project that we are embarking on is a
3 major renovation project of the Northern Distribution Center
4 in West Sacramento. That project will include a major
5 retrofit and renovation of the facility. We will bring the
6 facility up to seismic standards. We will re-roof the
7 building. We will enhance all of the internal systems,
8 including the HVAC, plumbing, window glazing. We will
9 install photovoltaic systems. In terms of operational
10 changes, we will be expanding our warehousing capabilities,
11 expanding our pick-and-pack capabilities and relocating our
12 pick-and-pack stations into a climate-controlled
13 environment, which is to the benefit of our employees
14 working those lines. One of the more exciting things about
15 the renovation is that we currently have a second-floor
16 mezzanine area in the building that is used just for storage
17 of historical items. We will be repurposing that entire
18 second floor to expand our office space. It's going to
19 include modular workstations, hard-walled office, conference
20 room, restrooms, break rooms. We'll be installing and
21 constructing the secondary stairwell to the floor, as well
22 as an elevator. On the first floor, we will be refreshing
23 all of the existing footprint with new paint, flooring, as
24 well as upgrading the restrooms and break-room systems.
25 This will bring the NDC, the Northern Distribution Center,

1 in line with the rest of the facilities within the
2 portfolio, and also, which is very important, it will bring
3 us into compliance with Governor Executive Order B-18-12,
4 which directs State departments that any newly constructed
5 buildings or major renovations include onsite power
6 generation as well as systems that will reduce our water
7 consumption by 20 percent by the year 2020, and that
8 reduction in consumption is based on our baseline for 2010.
9 The other project that we are embarking on is an
10 optimization of our Headquarters building here on North 10th.
11 When this building was constructed, we installed standard
12 modular configurations that are very spacious of 80 square
13 feet, and that has limited our ability to grow and staff
14 new, critical needs, and so the Lottery will be optimizing
15 this building by moving to a standard cubicle size of either
16 64 or 48 square feet, depending on the business need, and we
17 anticipate that that will increase our capacity in this
18 building by approximately 23 percent. That's a very
19 critical project for the Lottery in being able to fill some
20 of the positions that you the Commission have been or will
21 be approving. Regarding the optimization project, I will be
22 presenting an item later on in the Commission meeting
23 requesting an amendment to our Western Contract Furnishers
24 Agreement. That is an agreement primarily for the purchase
25 of modular furniture design and installation services. So

1 with that, I can answer any questions you may have.

2 **CHAIRMAN AHERN:** And your new facilities have
3 emergency generators?

4 **MS. DONOHUE:** I'm sorry?

5 **CHAIRMAN AHERN:** Are your facilities and your
6 upgrades -- did you mention that you're having emergency
7 generators on site for these facilities?

8 **MS. DONOHUE:** No. We're installing solar power
9 on these facilities. We do have uninterrupted power supply,
10 so backup power supply in all of our new facilities, and
11 that will be consistent across the portfolio.

12 **CHAIRMAN AHERN:** Okay. I'm just worried about
13 the public safety power shutoffs that we're dealing with,
14 and the ability to get people in and out of facilities.

15 **MS. DONOHUE:** Yes. The backup power supplies do
16 have limited backup power, and so depending on how long the
17 outages occur, there may have to be business decisions made
18 about what to do with the staff, but we do have some of a
19 coverage there.

20 **COMMISSIONER LIBANG-BOBILA:** I just want to say
21 that when I came on board, this Master Plan was in its
22 initial stage, and it's very rewarding to see that it all
23 happened, and it's up and running, and, you know, hopefully,
24 that it will conserve a lot of money for the Lottery, so
25 it's great work.

1 **MS. DONOHUE:** Thank you. We appreciate that.
2 I'm fairly new here, but I will give all of the credit to
3 the staff in the Operations Division.

4 **COMMISSIONER LIBANG-BOBILA:** Absolutely.

5 **MS. DONOHUE:** Thank you.

6 **COMMISSIONER MILLS:** I have a question.

7 **CHAIRMAN AHERN:** Oh, go ahead.

8 **COMMISSIONER MILLS:** I just want to start by
9 complimenting you on the consistency of the branding with
10 the facilities, and when you drive by the building, you
11 clearly know it's California Lottery, and it's really
12 standardized, and I also want to compliment our fearless
13 Director who is also well-branded today.

14 **MR. JOHNSON:** No, I got dressed in the dark. I
15 didn't --

16 **COMMISSIONER MILLS:** But I did have a question
17 about the optimization that's happening here in this
18 building, and my question is, what year was the original
19 building built and designed?

20 **MS. DONOHUE:** 2010 --

21 **COMMISSIONER MILLS:** 2010.

22 **MS. DONOHUE:** -- we took occupancy.

23 **COMMISSIONER MILLS:** So we're about a decade in?

24 **MS. DONOHUE:** Yes.

25 **COMMISSIONER MILLS:** Yeah, okay. Great, thank you.

1 **MS. DONOHUE:** Thank you.

2 **CHAIRMAN AHERN:** All righty, thank you.

3 **MR. JOHNSON:** Thank you.

4 **CHAIRMAN AHERN:** Moving on to Item Number 7,
5 it's our Consent Calendar. There were no items under
6 Consent, so we'll proceed to our Action Items, starting off
7 with Action Item 8a. It's Ratification of the California
8 Highway Patrol Inter-Agency Agreement, with Harj Chima.
9 Good morning, Harj.

10 **MS. CHIMA:** Good morning; how are you? Good
11 morning, Commissioners. I'm Harj Chima; I'm the Chief
12 Deputy Director at the California Lottery. The California
13 Lottery Security and Law Enforcement Division, which we
14 refer to as SLED, has been without consistent leadership for
15 many, many years. The two top positions, the Deputy
16 Director and the Assistant Deputy Director positions, are
17 gubernatorial appointments, and they've been vacant, as I
18 said, for many years. Because these are law enforcement
19 positions, the background check is very rigorous and can
20 take a very long time to complete. Since May 2018, the
21 Lottery has been utilizing existing staff to cover these top
22 two roles in an acting capacity. When Director Johnson and
23 I were appointed to our respective positions, the Governor's
24 Office indicated that we explore the opportunity to enter
25 into an Inter-Agency Agreement with the California Highway

1 Patrol to temporarily fill these top two positions. As a
2 result, we did enter into an Inter-Agency Agreement with the
3 California Highway Patrol. Jeremy Linson has filled the
4 Deputy Director role, and Shamil Jones (phonetic) has filled
5 the role of the Assistant Deputy Director. The Agreement
6 provides for a maximum expenditure of \$680,949 and is for a
7 period of one year. The Agreement became effective on
8 August 23rd, 2019. Unfortunately, we were not able to
9 prepare this item for the September meeting, but we are
10 asking the Commission to ratify this Inter-Agency Agreement
11 this morning. Any questions?

12 **CHAIRMAN AHERN:** All right. No questions from
13 the Commissioners? We have a question.

14 **COMMISSIONER MILLS:** I have a question.

15 **MS. CHIMA:** Yes.

16 **COMMISSIONER MILLS:** So, a couple questions. Can
17 you talk a little bit about -- this seems like a really
18 important function for the California Lottery, and it's been
19 open for what seems like a really long time. You mentioned
20 background checks. Are there other factors that are causing
21 the delay in getting permanent staff for the Lottery?

22 **MS. CHIMA:** As I mentioned, these are Governor-
23 appointed positions, so unfortunately, I think the
24 Governor's Office has been dealing with a lot, especially in
25 light of the recent fires that we've been having, and so I

1 think they just haven't had the opportunity to direct the
2 attention to these two appointments.

3 **COMMISSIONER MILLS:** I see. Okay. And maybe this
4 is a newbie question, but is there anything as Commissioners
5 that we could do to help kind of elevate this issue? Or,
6 and maybe that's a question for our Board President I'm
7 just not sure. It just seems like this is a really
8 important function for the Commission, and it's important to
9 have permanent staff at the top, so really it's that culture
10 and, you know, policy and procedure and lead, and it sounds
11 like we're really fortunate to have the opportunity to
12 contract with the CHP for this and really kind of grateful
13 for that, but it seems maybe, like, not the most efficient
14 and kind of long-term strategic way to really fill those
15 positions. So, I guess I would just say if there's anything
16 as a Commissioner or as Commissioners that we could do to
17 help, I would just ask that you call on us to do that. And
18 then my other question is just the cost. We saw the numbers
19 earlier about the projections being a little bit under
20 budget, and I'm curious about how the cost of this Inter-
21 Agency Agreement might compare to what it would cost the
22 Agency to bring on staff permanently; is it comparable?

23 **MS. CHIMA:** It's actually a little bit higher,
24 and that is because the California Highway Patrol has a
25 higher pay range, but some of this amount will be offset by

1 the amount that we've essentially been saving because we
2 have not had these positions filled in quite some time.

3 **COMMISSIONER MILLS:** Sure. Great. Thank you.

4 **MS. CHIMA:** Thank you.

5 **CHAIRMAN AHERN:** Any other Commissioners?

6 Question? Does any member of the public want to address us
7 regarding Action Item 8a? Seeing none, do I hear a motion
8 to approve Action Item 8a?

9 **COMMISSIONER LIBANG-BOBILA:** Motion to approve.

10 **COMMISSIONER STERN:** Second.

11 **CHAIRMAN AHERN:** I have a motion and a second.

12 Will the Secretary please call the roll?

13 **MR. TOPETE:** Commissioner Stern?

14 **COMMISSIONER STERN:** Yes.

15 **MR. TOPETE:** Commissioner Mills?

16 **COMMISSIONER MILLS:** Yes.

17 **MR. TOPETE:** Commissioner Libang-Bobila?

18 **COMMISSIONER LIBANG-BOBILA:** Yes.

19 **MR. TOPETE:** Chairman Ahern?

20 **CHAIRMAN AHERN:** Yes. All righty. Thank you
21 very much.

22 **MS. CHIMA:** Thank you.

23 **COMMISSIONER LIBANG-BOBILA:** Thank you so much.

24 **CHAIRMAN AHERN:** Okay. And Jeremy, for Action
25 Item 8b for the Ratification of Emergency Six-Month Contract

1 Extension with Stanley Convergent Security Solutions.

2 **MR. LINSON:** Hi. Good morning. My name is Jeremy
3 Linson. I am the Deputy Director of SLED, as you've just
4 approved. I really appreciate that, to start off. I wasn't
5 sure if I was going to keep moving forward.

6 **COMMISSIONER STERN:** Congratulations.

7 **MR. LINSON:** Thank you.

8 **COMMISSIONER LIBANG-BOBILA:** Thank you.

9 **CHAIRMAN AHERN:** Be brief.

10 **MR. LINSON:** This is Item 8b, the Ratification
11 of the Emergency Six-Month Contract with Stanley Convergent
12 Security Solutions, Incorporated. As I begin, I'd like to
13 give you a little history on how this contract started. On
14 September 1st, 2014, the California State Lottery entered
15 into a five-year contract agreement with Stanley Convergent
16 Security Solutions, Incorporated. This contract was
17 established to provide comprehensive security systems
18 services for all 12 Lottery facilities statewide, which
19 includes security access badges and video security
20 monitoring. This five-year contract was set to expire on
21 August 31st, 2019, the day before I became SLED's Deputy
22 Director. On August 30th, 2019, the day I took over as
23 SLED's Deputy Director, I was presented with a two-year
24 contract extension for Stanley and couldn't in good faith
25 approve it without consultation with the Chief Legal

1 Counsel, Chief Deputy Director and the Director of the
2 Lottery. During the consultation, it was determined not to
3 sign the two-year contract extension and to request a 60-day
4 extension for additional time to learn and review the
5 previous contract and to have an understanding as to what is
6 expected out of this contract, and more importantly, what is
7 expected out of our vendor, Stanley. Stanley accepted the
8 60-day extension. As we examined the previous contract and
9 discussed it with SLED staff and the Directorate, it was
10 determined multiple levels of failure have occurred. In
11 light of the multiple failures, SLED requests to reevaluate
12 our scope of service, our security needs, and the chain of
13 command responsible for managing those contracts in the
14 creation of a new invitation-for-bid process. This six-
15 month emergency extension is vital to ensure we can
16 accomplish that evaluation. Due to the urgent and
17 compelling need to maintain these services, this procurement
18 is exempt from competitive bidding. The total of this
19 contract is \$400,000, and it's from October 31st, 2019
20 through April 30th of 2020, and I'm open to any questions
21 that you may have.

22 **CHAIRMAN AHERN:** All right. Any member of the
23 Commission have a question?

24 **COMMISSIONER STERN:** I do. So looking at the
25 \$400,000, the services, there's a technician, there are

1 software upgrades and also infrastructure equipment and
2 whatnot; can you expand a little bit on the allocation of
3 the \$400,000 across -- how much of that is consulting versus
4 infrastructure, just to give some more clarity on that?

5 **MR. LINSON:** Great question. In my first day
6 that I got here, I was presented with this contract. We are
7 doing everything we can every day to really learn the
8 nuances of this contract. As we were looking at it, we
9 noticed that some of our equipment needed another operator,
10 so that came with the addition of another embedded tech here
11 with Stanley. So with that second embedded tech, we're
12 starting to tackle some of the things that hadn't been taken
13 care of, so that is one of the major additions. The rest of
14 it is just the annual cost of Stanley that had been
15 previously discussed and agreed to.

16 **COMMISSIONER STERN:** Great. Thank you.

17 **CHAIRMAN AHERN:** Go ahead.

18 **COMMISSIONER MILLS:** And so first, Deputy Director
19 Linson, I want to thank you for your service to the
20 California Lottery; we are clearly very lucky to have you on
21 staff, so thank you for that.

22 **MR. LINSON:** Thank you.

23 **COMMISSIONER MILLS:** I have a question about -- so
24 we're doing an emergency extension, and it sounds like you
25 guys are going through a more formal RFP process to really

1 kind of assess what the Lottery Commission needs from a
2 service provider like this, and so can you talk a little bit
3 about where you guys are in that RFP process and the kind of
4 assessment process you are going through here at the Lottery
5 to make sure that the RFP reflects what the Lottery
6 Commission needs in this type of service provider?

7 **MR. LINSON:** To begin this, I can really commend
8 the Deputy Directors and the employees here at the Lottery.
9 We've all kind of come together. We know that there is a
10 need, and it's a team that we're all getting together to put
11 this -- we're not exactly sure how it was created, as some
12 of our positions are new here, but we're working with our
13 ITSD Division, our ISO Division, to make sure that we, I
14 mean, have it -- a good, strong front to know exactly what
15 is expected moving forward, and I'm not sure if that was
16 done like that in the past.

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

18 **CHAIRMAN AHERN:** All right. Does any member of
19 the public want to address this regarding Action Item 8b?
20 Seeing none, do I hear a motion to approve Action Item 8b
21 for the Ratification of the Emergency Six-Month Contract?

22 **COMMISSIONER MILLS:** So moved.

23 **COMMISSIONER STERN:** Second.

24 **CHAIRMAN AHERN:** We have a motion and a second;
25 will the Secretary please call the roll?

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MR. TOPETE: Commissioner Stern?

COMMISSIONER STERN: Yes.

MR. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MR. TOPETE: Commissioner Libang-Bobila?

COMMISSIONER LIBANG-BOBILA: Yes.

MR. TOPETE: Chairman Ahern?

CHAIRMAN AHERN: Yes. All righty; thank you very much.

MR. LINSON: Thank you.

CHAIRMAN AHERN: Moving on to Action Item 8c, Request to Add Positions. Good morning, Nick.

MR. BUCHEN: Good morning. This request is to add a total of seven new permanent positions to the Lottery, and these seven positions are for two different divisions, Security and Law Enforcement Division (SLED) and Operations. I'll take these in alphabetical order and start with the Operations Division. Operations is requesting three additional engineer positions to fully support the Lottery's 12 owned facilities. As Tiffany provided helpful background on the Facilities Master Plan, the transition from leased to owned facilities is almost complete. So the fundamental need for the three new engineer positions is that the Lottery is no longer able to perform efficiently the preventative maintenance and repair work on all of our owned

1 facilities throughout the state with existing resource
2 levels. As warranty coverage for our own facilities
3 expires, maintenance and repair become the responsibility of
4 the Lottery. This, combined with the need for more
5 preventative maintenance, has resulted in a steady increase
6 in the number of work orders over the last three years, and
7 this growth is projected to continue, with projections for
8 2020 showing a 28 percent increase in work orders compared
9 to 2019. Two of the requested new engineer positions will
10 be headquartered in Southern California and will provide
11 maintenance and repair work for Lottery's Southern
12 California facilities. The other requested new engineer
13 position will be headquartered here in Sacramento and will
14 provide an extra supervisory layer for all of the engineers
15 and also provide additional engineering support primarily
16 for Northern California facilities. All three engineer
17 positions will perform critical maintenance and repair work
18 on facilities and building systems, including plumbing,
19 HVAC, electrical, lighting, solar, and controls. This
20 request will allow for redundant statewide expertise so that
21 the Lottery can better respond to unexpected repair and
22 system issues. The other four new positions being requested
23 in this item are for SLED and are part of a broader effort
24 to restructure and realign SLED to support proper managerial
25 oversight and administration. Under this restructure, SLED

1 will be organized into two major areas, Field and
2 Headquarters. Under the Chief of Field will be two
3 requested second-level supervisor positions, one located in
4 Northern California and one located in Southern California.
5 The new Northern California position will manage the
6 Supervising Lottery Agent positions covering Sacramento,
7 Fresno, Richmond and East Bay District Offices, while the
8 new Southern California position will manage the Supervising
9 Lottery agents covering the Chatsworth, Santa Fe Springs,
10 Costa Mesa, Rancho Cucamonga and San Diego District Offices.
11 The third requested position for SLED will be a new second-
12 level supervisor position under the Chief of Headquarters.
13 This position will manage an existing Supervising Lottery
14 Agent position over the Special Investigations and Gaming
15 Security Unit, as well as a new Supervising Lottery Agent
16 that would manage a newly created Emergency Management and
17 Physical Security Unit. The new Supervising Lottery Agent
18 over this new unit is the fourth new position being
19 requested for SLED. The new Emergency Management and
20 Physical Security Unit will foster an environment of
21 increased safety and security for Lottery employees, players
22 and retailers. These seven requested new positions are
23 estimated to cost approximately \$400,000 for the remainder
24 of this current fiscal year, and there is sufficient funding
25 in the Lottery's Administrative Spending Reserve for this

1 purpose. The full fiscal year cost of the seven positions
2 is approximately \$960,000 and will fluctuate over time based
3 on bargaining unit contracts and salary range adjustments.
4 We recommend that the Commission approve the three new
5 positions for Operations and the four new positions for
6 SLED. I'd be happy to answer to any questions.

7 **CHAIRMAN AHERN:** Sorry, I forgot to ask you
8 questions when I was briefed. Do we have a hiring list and
9 a promotional list already in place, or do we have to create
10 those?

11 **MR. BUCHEN:** We would be moving forward with the
12 hiring process, so we don't have a list already available, I
13 don't believe, for any of these positions.

14 **CHAIRMAN AHERN:** Okay.

15 **COMMISSIONER LIBANG-BOBILA:** So how long do you
16 think the process will take?

17 **MR. BUCHEN:** It varies. I would hope that it
18 wouldn't take more than four months.

19 **COMMISSIONER LIBANG-BOBILA:** Okay. I hope so,
20 too, given the -- especially with SLED.

21 **MR. BUCHEN:** Right.

22 **COMMISSIONER LIBANG-BOBILA:** Uh-huh. Thank you.

23 **MR. BUCHEN:** Uh-huh. Any other questions?

24 **CHAIRMAN AHERN:** Any other questions? Does any
25 member of the public want to address the Commission

1 regarding Action Item 8c? Seeing none, do we have a motion
2 to approve Action Item 8c, request for the additional seven
3 positions?

4 **COMMISSIONER STERN:** Move 8c.

5 **COMMISSIONER LIBANG-BOBILA:** Second.

6 **CHAIRMAN AHERN:** We have a motion and a second.

7 Will the Secretary please call the roll?

8 **MR. TOPETE:** Commissioner Stern?

9 **COMMISSIONER STERN:** Yes.

10 **MR. TOPETE:** Commissioner Mills?

11 **COMMISSIONER MILLS:** Yes.

12 **MR. TOPETE:** Commissioner Libang-Bobila?

13 **COMMISSIONER LIBANG-BOBILA:** Yes.

14 **MR. TOPETE:** Chairman Ahern?

15 **CHAIRMAN AHERN:** Yes.

16 **MR. BUCHEN:** Thank you.

17 **CHAIRMAN AHERN:** All righty, thank you. Okay.

18 Action Item 8d, Amendment to the Modular Furniture Contract,
19 Tiffany.

20 **MS. DONOHUE:** Thank you, Chair, Commissioners,
21 Director Johnson. I am presenting Agenda Item 8d, which
22 seeks approval of funding to augment the Lottery's Western
23 Contract Furnishers Agreement. As I indicated earlier, the
24 Lottery Headquarters Building has reached capacity, given
25 the current modular furniture configuration, and the Lottery

1 plans to optimize its space here at Headquarters by
2 reconfiguring those workstations. The workstations will be
3 optimized by reducing our standard cubicle size of 80 square
4 feet to standards of 64 and 48 square feet. The approved
5 funding of this amendment will allow for the purchase of
6 additional modular furniture-related reconfiguration, design
7 and installation services. The Commission approved award of
8 the Western Contract Furnishers Agreement in April of 2019
9 for a contract term of three years and \$300,000. This item
10 is requesting an additional \$2,420,000 to fund the purchase
11 of the additional modular furniture components and
12 associated services. This amendment will be executed
13 pursuant to Section 812D of the California State Lottery
14 Regulations, and I can answer any questions that you may
15 have.

16 **CHAIRMAN AHERN:** All right, do any of the
17 Commissioners have any questions or comments regarding
18 Action Item 8d?

19 **COMMISSIONER LIBANG-BOBILA:** I think I expressed
20 this during the briefing. Given the amount, the jump in the
21 request, I just want to make sure that we minimize these
22 kinds of requests in the future, because we went from
23 \$300,000 to over \$2 million, although I understand why it
24 has to happen, and it's -- that's all.

25 **MS. DONOHUE:** So in response to that, the Lottery

1 has done a very thorough job in assessing the needs and the
2 capabilities that we have here in the Headquarters Building.
3 The estimate that we have come up with is a conservative
4 estimate, and we believe that we will be able to fulfill the
5 optimization in this building within that augmented amount,
6 and, again, in achieving a 23 percent increase in capacity.

7 **COMMISSIONER LIBANG-BOBILA:** Sure. Thank you.

8 **CHAIRMAN AHERN:** All righty, does any member of
9 the public want to address the Commission at this time
10 regarding Action Item 8d? Seeing none, do I hear a motion
11 to approve Action Item 8d?

12 **COMMISSIONER LIBANG-BOBILA:** Motion to approve.

13 **CHAIRMAN AHERN:** We have a motion.

14 **COMMISSIONER MILLS:** Second.

15 **CHAIRMAN AHERN:** We have a motion and a second.

16 Will the Secretary please call the roll?

17 **MR. TOPETE:** Commissioner Stern?

18 **COMMISSIONER STERN:** Yes.

19 **MR. TOPETE:** Commissioner Mills?

20 **COMMISSIONER MILLS:** Yes.

21 **MR. TOPETE:** Commissioner Libang-Bobila?

22 **COMMISSIONER LIBANG-BOBILA:** Yes.

23 **MR. TOPETE:** Chairman Ahern?

24 **CHAIRMAN AHERN:** Yes.

25 **MR. DONOHUE:** Thank you.

1 **CHAIRMAN AHERN:** All right, thank you, Tiffany.
2 Moving on to Roberto Zavala, Action Item 8e, Appointment of
3 California State Lottery Audit Committee Members.

4 **MR. ZAVALA:** Good morning, Chair and
5 Commissioners. I have Item 8e, Appointment of Audit
6 Committee Members. As you might be aware, the Audit
7 Committee does not have any active members as we speak
8 today. The Committee was established per Government Code
9 Sections back in 2010. The Committee ensures the
10 independence of the internal audits that I produce. I am
11 actually accountable to the Committee as well. The
12 Committee provides guidance to the Commission and oversees
13 performance of my audits. The Committee has at least two
14 and no more than five members during its Committee meetings.
15 Two members are required for a quorum, and two votes are
16 required to pass an action item. I am not part of the
17 Committee; I am actually a resource to the Committee, so I
18 will be providing most of the information that the Committee
19 considers and so forth and also recommends to me and the
20 Lottery. The Committee shall have a member with financial
21 experience and also, preferably, a CPA or someone with audit
22 experience. The Committee's responsibilities include annual
23 reports to the Commission, reviewing the Annual Internal
24 Audit Plan that I produce, supporting me in addressing
25 issues, reporting on issues not satisfactorily resolved and

1 considers also anything from me and also the Chief Counsel.
2 The Committee also reviews any changes to staff to ensure
3 that its independence and integrity of audits is in place.
4 The Committee meets generally after these meetings that we
5 have today. Today we are tracking about 21 audits, so it's
6 important that you hear about some of these. The
7 Committee's a critical part of the organization to increase
8 its transparency, integrity and oversight of the
9 organization. However, the Committee has not met since
10 2018. With that, I'd like to recommend that we appoint not
11 two but actually three Commissioners. The reason for the
12 change is I think in the last Committee that we had, they
13 had challenges in meeting because there were only two
14 members, and I think three would ensure that we at least
15 have enough dialogue with the Commissioners. With that, I'd
16 like to request that you appoint three Committee Members.
17 Thank you.

18 **CHAIRMAN AHERN:** Okay, I think we have
19 Commissioner Mills, who has agreed to be the lead on this
20 Committee, right?

21 **COMMISSIONER MILLS:** Happy to serve; thank you.

22 **CHAIRMAN AHERN:** And do we have a member of the
23 Commission who'd like to be the second?

24 **COMMISSIONER LIBANG-BOBILA:** I can volunteer.

25 **CHAIRMAN AHERN:** I see we have a volunteer, and

1 we have Peter, who says that he would be the alternate.

2 **COMMISSIONER STERN:** Happy to volunteer as well.

3 **MR. ZAVALA:** Congratulations. So, cheers.

4 **COMMISSIONER MILLS:** Our prize is 21 audits.

5 **CHAIRMAN AHERN:** Does any Commissioner have any
6 questions? Does any member of the public have any questions
7 regarding this Action Item 8e? So could we have a motion
8 that includes the appointments, please?

9 **COMMISSIONER MILLS:** So moved.

10 **COMMISSIONER LIBANG-BOBILA:** Second.

11 **CHAIRMAN AHERN:** We have a motion and a second.

12 Will the Secretary please call the roll?

13 **MR. TOPETE:** Commissioner Stern?

14 **COMMISSIONER STERN:** Yes.

15 **MR. TOPETE:** Commissioner Mills?

16 **COMMISSIONER MILLS:** Yes.

17 **MR. TOPETE:** Commissioner Libang-Bobila?

18 **COMMISSIONER LIBANG-BOBILA:** Yes.

19 **MR. TOPETE:** Chairman Ahern?

20 **CHAIRMAN AHERN:** Yes.

21 **MR. ZAVALA:** Thank you; we'll be in touch.

22 **CHAIRMAN AHERN:** And what a nice way to welcome
23 Commissioner Mills to the -- you have volunteered.

24 **COMMISSIONER STERN:** It's a welcome welcome.

25 **COMMISSIONER MILLS:** I feel very welcomed; thank

1 you.

2 **CHAIRMAN AHERN:** All right. Action Item 8f,
3 Sharon Allen for SuperLotto Plus Amended Regulations.

4 **MS. ALLEN:** All right. Good morning,
5 Commissioners.

6 **CHAIRMAN AHERN:** Good morning.

7 **MS. ALLEN:** I am presenting Item 8f, SuperLotto
8 Plus Amended Regulations. We are proposing regulation
9 amendments to modify the SuperLotto Plus, or SLP, Annuity
10 Structure to a 0.05 percent graduated annuity rate, which
11 will reduce the prize expense and increase funding to
12 education. Currently, SuperLotto Plus has a 0.04 percent
13 graduated annuity, whereas Mega Millions and Powerball both
14 have a 0.05 percent graduated annuity. By utilizing the
15 same 0.05 percent graduated annuity rate for SLP, we are
16 estimating an approximate annual savings of 0.02 percent per
17 SLP jackpot prize expense. For context, had the Lottery
18 been using a 0.05 percent graduated annuity over the last
19 four fiscal years, it would have saved approximately \$6
20 million. Increasing the graduated annuity rate results in
21 larger dollar values being paid out in the later years of
22 the annuity stream, which reduces the overall cost of the
23 annuity prize. Also, since the cash value of a jackpot
24 prize is based on the cost of the annuity, this change will
25 result in lower prizes, whether the annuity or the cash

1 option is selected. This recommended change will make SLP
2 consistent with our multi-state games and supports the
3 Lottery's efforts to improve profitability and increase
4 contributions to public education. If approved, this change
5 will become effective on December 4th of this year. Claims
6 to jackpots won prior to this date will be processed under
7 the existing annuity rate. We recommend that the Commission
8 approve the proposed regulation amendments for SuperLotto
9 Plus, which would become effective on December 4th, 2019.
10 And I'd be happy to answer any questions.

11 **CHAIRMAN AHERN:** Does any member of the
12 Commission have a question regarding --

13 **COMMISSIONER MILLS:** I have a question. I just
14 wanted to confirm. So, you talked about the cost savings as
15 a result of this change. Will all of those cost savings go
16 to support public education?

17 **MS. ALLEN:** Yes.

18 **COMMISSIONER MILLS:** Excellent. Thank you.

19 **CHAIRMAN AHERN:** Any other questions?

20 **COMMISSIONER STERN:** Yeah, just curious. How often
21 are the rates reviewed and/or amended?

22 **MS. ALLEN:** Not very often. My understanding
23 is that the multi-state games came in at a 0.05 percent, and
24 it was evaluated several years ago in the '90s, I think it
25 was, to change SuperLotto Plus to a graduated annuity rate,

1 and as we've been looking over the last year or so,
2 different ways that we could maximize the profitability and
3 increase our contributions, we noticed that these were
4 inconsistent rates and decided to evaluate if it would be an
5 option to make them consistent, and that's we how we led to
6 it. Nick, did you want to add anything additional on it?
7 Okay.

8 **COMMISSIONER STERN:** Thank you.

9 **CHAIRMAN AHERN:** All righty, does any member of
10 the public wish to address the Commission regarding 8f?
11 Seeing none, do I hear a motion to approve 8f for the
12 SuperLotto Plus Amendment Regulations?

13 **COMMISSIONER LIBANG-BOBILA:** Motion to approve.

14 **COMMISSIONER STERN:** Second.

15 **CHAIRMAN AHERN:** We have a motion and a second;
16 will the Secretary please call the roll?

17 **MR. TOPETE:** Commissioner Stern?

18 **COMMISSIONER STERN:** Yes.

19 **MR. TOPETE:** Commissioner Mills?

20 **COMMISSIONER MILLS:** Yes.

21 **MR. TOPETE:** Commissioner Libang-Bobila?

22 **COMMISSIONER LIBANG-BOBILA:** Yes.

23 **MR. TOPETE:** Chairman Ahern?

24 **CHAIRMAN AHERN:** Yes. All right. Your next
25 item, 8g, Extension of Control Group Companies, LLC Service

1 Contract.

2 **MS. ALLEN:** All right, me again. All right.
3 This is Item 8g, Extension of Control Group Companies
4 Services Contract. The Lottery currently contracts with
5 Control Group Companies, also known as Controltek, for the
6 production of shipping bags for the distribution of
7 Scratchers. The existing term is set to expire on December
8 31st, 2019. Staff is recommending that the Commission
9 approve an amendment to the Controltek contract to extend
10 the term by two years. The Lottery sends Scratchers tickets
11 daily via United Parcel Service to retailers, as well as
12 ships returns of expired and unsold tickets back to the
13 Lottery for destruction. Since 2003, the Lottery has been
14 using a strong tamper-resistant polyethylene bag, which
15 protects tickets from damage during shipping. I brought an
16 example. This is the new ticket shipping bag.

17 **CHAIRMAN AHERN:** All right.

18 **MS. ALLEN:** In 2016, the Commission awarded
19 Controltek a three-year contract with an expenditure
20 authority of \$805,000 for the production of shipping bags.
21 The contract included an option to extend the term for an
22 additional two years. Due to the unique composition of the
23 material, there are few manufacturers capable of producing
24 bags that meet the Lottery's business need, and as a result,
25 the Lottery has had difficulty securing quotes from multiple

1 vendors that are both interested and qualified. To date,
2 Controltek has provided good service and a quality product
3 throughout the contract term. Exercising the two-year
4 extension option will enable the Lottery to continue
5 critical shipping and delivery efforts without interruption
6 through 2021. The Lottery estimates that approximately
7 \$429,000 remains of the current expenditure authority and
8 that it will be adequate to cover the services during the
9 extension period. We recommend that the Commission approve
10 an amendment to the Controltek contract for shipping bag
11 production to extend the term by two years, with a new
12 contract end date of December 31st, 2021. With no additional
13 funds required, the maximum authorized contract expenditure
14 amount will remain at \$805,000. And I'd be happy to answer
15 any questions.

16 **COMMISSIONER LIBANG-BOBILA:** Just promoting an
17 eco-friendly (overlapping).

18 **MS. ALLEN:** Yes, we'll definitely look into
19 that. That was a good comment, and if we can't do it for
20 this one, we'll work on it in the next contract.

21 **COMMISSIONER LIBANG-BOBILA:** Thank you.

22 **CHAIRMAN AHERN:** Commissioners, any other
23 questions? Does any member of the public want to address
24 the Commission regarding Action Item 8g? Seeing none, we'll
25 call for a motion.

1 **COMMISSIONER MILLS:** So moved.
2 **COMMISSIONER STERN:** Second.
3 **CHAIRMAN AHERN:** We have a motion and a second.
4 Will the Secretary please call the roll?
5 **MR. TOPETE:** Commissioner Stern?
6 **COMMISSIONER STERN:** Yes.
7 **MR. TOPETE:** Commissioner Mills?
8 **COMMISSIONER MILLS:** Yes.
9 **MR. TOPETE:** Commissioner Libang-Bobila?
10 **COMMISSIONER LIBANG-BOBILA:** Yes.
11 **MR. TOPETE:** Chairman Ahern?
12 **CHAIRMAN AHERN:** Yes. All right.
13 **MS. ALLEN:** Okay, thank you.
14 **CHAIRMAN AHERN:** Jim, please, for Action Item
15 8h, Communication Effectiveness Tracking Study Services
16 Contract Amendment.
17 **MR. HASEGAWA:** Yes, good morning, Mr. Chairman --
18 **CHAIRMAN AHERN:** Good morning.
19 **MR. HASEGAWA:** -- Commissioners. Before you is,
20 the Contract Amendment for the Communication Effectiveness
21 Tracking Study. It's currently conducted by Alter Agents.
22 To give you a little background, what the Communication
23 Effectiveness Tracking Study actually does, it's an ongoing
24 study where we interview a representative sample of
25 California adults, about 300 each week, and it allows us to

1 measure the performance of Lottery on such metrics as
2 playership, attitudes and perceptions of the Lottery and its
3 products, as well as generating what type of top-of-mind
4 awareness. As an example, I pulled one from playership. So
5 in Fiscal 2018-19, the recently completed fiscal year, 66
6 percent of all California adults played a Lottery game at
7 least once during the past year. And because we track it,
8 this is statistically higher than the 63 percent incidence
9 we found in the prior fiscal year, so we actually were able
10 to grow playership. In terms of specific products, the
11 playership of Mega Millions and Scratchers is what
12 contributed to that growth. Mega Millions, probably due to
13 the \$1.6 billion jackpot in October of 2018, grew to 47
14 percent of California adults participating in that game in
15 the past year. And for Scratchers, it increased to 46
16 percent of California adults, a growth of about three
17 percentage points, and that's a result we believe of our
18 various marketing efforts in that product category over the
19 past several years. The Lottery also mandates certain
20 studies that the Lottery does from time to time, and this is
21 a way that we fulfill that requirement. It requires an
22 independent firm to conduct research in such areas to
23 ascertain the demographic characteristics of our players, to
24 analyze the effectiveness of our marketing and
25 communications efforts and to get the reactions of

1 California citizens to existing or proposed features in our
2 games. For example, then, it shows the demographics one
3 conveys, particularly for our newer Commissioners so they
4 understand who plays our products. The demographics of
5 Lottery players generally mirrors the California adult
6 population. It's not one specific group that only plays the
7 Lottery. It's a very broad cross-section, as you might
8 imagine, since two-thirds of California adults participate
9 in the Lottery. An example of that is with income, 33
10 percent of Lottery players had annual household incomes of
11 \$100,000 or more, and this compares to the 32 percent in the
12 total California adult population, so you can see income
13 pretty much mirrors the California adult population.
14 However, when there is a skew, there is a slight skew in
15 gender. Lottery playership skews a bit more towards men.
16 Fifty-three percent of Lottery players are male, compared to
17 just 47 percent of females, compared to the 50-50 split in
18 the general population. So, now that I've given you a
19 little background, in terms of this contract, the current
20 contract with Alter Agents started in February of 2016 after
21 a formal competitive procurement process. The contract was
22 for three years and had the option to extend for up to two
23 additional one-year periods. In January of 2019, the
24 Commission approved an extension for one year, exercising
25 the first option to extend the contract, as well as

1 increasing the contract expenditure authority by \$315,000.
2 Today, the final option is being brought before you to
3 extend for one additional year. I should note that during
4 their tenure, Alter Agents provided excellent service.
5 Every month they have to provide essentially a data tape of
6 all the interviews conducted during the past month, and
7 they've met every deliverable date during their tenure.
8 They've also worked really well with Lottery staff in
9 accommodating our needs and making updates to the survey as
10 needed. As such, staff recommends the exercising of this
11 final option to extend the contract one more year with Alter
12 Agents. This one-year option would extend the contract from
13 February 23, 2020 through February 22nd of 2021, and then to
14 conduct the research during that 12-month period, contract
15 expenditure authority would need to be increased by
16 \$250,000, raising the total to not to exceed \$1,465,000, and
17 that concludes my presentation. I can answer any questions
18 at this time.

19 **CHAIRMAN AHERN:** All right. Do any of the
20 Commissioners have any questions regarding this action item?

21 **COMMISSIONER STERN:** I just have a request. Can
22 you share the analysis and the insights that you just shared
23 with us as well? We'd love to see them.

24 **MR. HASEGAWA:** Yeah, there's a lot of different
25 areas we can talk about; is there one specific area?

1 Because it's kind of like our encyclopedia, in a way, but we
2 can definitely do that.

3 **COMMISSIONER STERN:** Okay. Fantastic. Thank you.

4 **MR. HASEGAWA:** Uh-huh.

5 **CHAIRMAN AHERN:** And does any member of the
6 public want to address the Commission at this time regarding
7 Action Item 8h? Seeing none, do I hear a motion to approve
8 Action Item 8h?

9 **COMMISSIONER LIBANG-BOBILA:** Motion to approve.

10 **COMMISSIONER STERN:** Second.

11 **COMMISSIONER MILLS:** Second.

12 **CHAIRMAN AHERN:** We have a motion and multiple
13 seconds. Will the Secretary please call the roll?

14 **MR. TOPETE:** Commissioner Stern?

15 **COMMISSIONER STERN:** Yes.

16 **MR. TOPETE:** Commissioner Mills?

17 **COMMISSIONER MILLS:** Yes.

18 **MR. TOPETE:** Commissioner Libang-Bobila?

19 **COMMISSIONER LIBANG-BOBILA:** Yes.

20 **MR. TOPETE:** Chairman Ahern?

21 **CHAIRMAN AHERN:** Yes.

22 **MR. HASEGAWA:** Thank you.

23 **CHAIRMAN AHERN:** All righty, thank you very
24 much, and that concludes the Action Items. We'll move on to
25 Commissioner General Discussion. Any Commissioners have any

1 comments they'd like to bring up at this time?

2 **COMMISSIONER LIBANG-BOBILA:** I just want to wish
3 everybody a Happy Thanksgiving, and good work.

4 **CHAIRMAN AHERN:** All righty. Item Number 10 is
5 Scheduling Next Meetings. We have meetings scheduled for
6 January 16th, 2020, March 19th, May 28th and June 25th, all
7 listed in Sacramento, so please mark your calendars. Number
8 11 is Public Discussion; we had no one sign up to discuss
9 anything today, and no one's walking forward. So, with
10 that, we'll move on to Adjournment, but before we leave, I'd
11 like to welcome our new Commissioner. Thank you very much
12 for traveling up here and joining us for this meeting, and
13 we wish you all the best, and to all of our great Lottery
14 people and our vendors and sponsors, thank you for what
15 you've done for us throughout the year. We hope you have a
16 great Thanksgiving and Counsel, can I say Happy Christmas,
17 too, or? Merry Christmas to you, as well. We'll see you in
18 2020. With that, we're adjourned. (End of Recording)

19 **(MEETING ADJOURNED)**

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