

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – September 23, 2021

Sacramento, California

1. **Call to Order**

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

2. **Pledge of Allegiance**

Chairman Ahern led the Pledge of Allegiance.

3. **Roll Call**

Chairman Ahern asked Elisa Topete to call the roll.

Commission Members Present:

Chairman Gregory Ahern

Commissioner Peter Stern

Commissioner Nathaniel Kirtman (Joined meeting at 10:07 a.m.)

Commissioner Keetha Mills

California State Lottery staff and presenters:

Alva V. Johnson, Director

Fernando Aceves, Chief Counsel

Sharon Allen, Deputy Director of Sales and Marketing

Paula Negrete, Deputy Director of External Affairs

Jeremy Linson, Acting Deputy Director of Security and Law Enforcement

Jim Hasegawa, Deputy Director of Business Planning

Vincent Espinosa, Chief Enterprise Risk Officer

Nicholas Buchen, Deputy Director of Finance

Elisa Topete, Assistant to the Commission

4. **Consider Approval of the Agenda**

Chairman Ahern asked if any of the Commissioners wanted to make changes to the September 23, 2021 proposed agenda. Commissioner Peter Stern made the motion to approve the agenda and was seconded by Commissioner Keetha Mills. The agenda passed unanimously.

5. **Approval of the Minutes**

Chairman Ahern asked if there were any additions or corrections to the June 24, 2021, minutes. Commissioner Mills made the motion to approve the minutes of the June 24, 2021, Commission Meeting and was seconded by Commissioner Stern. The minutes passed unanimously.

6. Informational Items

a. Director's Comments

Director Alva Johnson provided estimates of Lottery sales through Saturday, September 11th. Estimated sales are almost \$1.9 billion, which is 12% above the sales goal and 23% higher than Lottery sales over the same time period last fiscal year. Scratchers[®] started the year exceeding expectations with distribution sales close to \$1.5 billion through mid-September. This is 14% ahead of goal and 22% over last fiscal year's sales.

The multi-state games, which include Powerball[®] and Mega Millions[®], have started this fiscal year with \$180 million in sales. This is 8% higher than goal and higher than last fiscal year's sales during the same time of year. Both games have had rolling jackpots that are contributing to these strong sales. Powerball specifically has rolled at a slightly higher level, and has a new 3rd draw on Mondays, which is resulting in sales 20% higher than goal and almost double last year's Powerball sales through mid-September. Sales for California's in-state jackpot game, SuperLotto Plus[®], are right on par with goal and last year's sales, coming in at nearly \$10.4 million, or 7% higher.

The Daily Games, which include Daily 3, Daily 4, Fantasy 5, and Daily Derby[®], have combined sales of \$85 million so far – running slightly behind goal as a group. However, three of the four games have year-to-date sales that meet their individual goals. Finally, Hot Spot[®] sales through mid-September are over \$80 million. With over \$7.5 million in sales each week this fiscal year, this game is pacing both above goal and last fiscal year's sales.

Staff also assesses 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 August 31st. Just two months into the fiscal year, total sales are running 10% ahead of its goal. Estimated contributions to education are over \$305 million, which is 2% higher than goal.

Director Johnson also spoke of the 3rd Powerball draw as well as the Scratchers Brand Repositioning Campaign. Many staff hours and resources went into these efforts and he thanked those in Marketing, Information Technology and other divisions who had a part in making these happen and players are sure to notice that there are exciting new things happening at the Lottery.

7. Consent Calendar

8. Action Items

a. Extension to the Time Advertising Contract

Deputy Director of Sales and Marketing, Sharon Allen, requested Commission approval of a second one-year extension under the terms and conditions of the contract with Time Advertising to continue to receive Asian market advertising services.

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

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

b. Problem Gambling Prevention Contract

Deputy Director of External Affairs, Paula Negrete, requested Commission approval to enter into a new two-year Interagency Agreement with the California Department of Public Health for problem gambling prevention services provided by the Office of Problem Gambling.

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

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

c. Request to Ratify the Contract Amendment with Securitas Security Services

Acting Deputy Director of Security and Law Enforcement, Jeremy Linson, requested Commission approval for the ratification of an amendment to the Securitas Security Services contract for additional funding through the end of the contract term of December 27, 2021.

Commissioner Mills asked Mr. Linson to elaborate on the increase related to the salaries and benefits and why it was not included in the contract. Mr. Linson explained that there was an increase in the minimum wage of entry-level security guards and because of that, there was an increase to all the security guards. In 2016, staff did not foresee the changes in the minimum wage, which is why there is an increase as it relates to the wages and benefits.

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

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

d. Advertising Tracking Services Contract Amendment

Deputy Director of Business Planning, Jim Hasegawa, requested Commission approval to exercise two separate one-year options to extend the Ipsos Limited Partnership contract and continue to receive Ad Tracking research services.

Commissioner Stern requested Mr. Hasegawa to provide a couple of examples of how this extension may have changed our sales and marketing strategies, given the research data that Ipsos is providing. Mr. Hasegawa used the holiday campaigns as an example. The scores were not as strong as the Lottery wanted, so they elected to create brand new creative executions to better meet the performance of the advertising as intended. Other executions performed very strongly, and they demonstrated no signs of wear-out. Therefore, the Lottery could save money by not creating new executions for the following holiday season. These were a couple of the many examples that this study produces, which in turn, gets utilized by the Marketing Team.

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

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

e. Amendment to the Epicor 10 Financial System Contract

Chief Enterprise Risk Officer, Vincent Espinosa, requested Commission approval to amend the contract with Epicor Software Corporation (Epicor). The amendment would increase the budget to cover maintenance, a project schedule extension, and a budget contingency for the implementation of the Epicor 10 financial system upgrade.

Commissioner Mills asked if there are opportunities to enhance and codify some additional processes, procedures or policies. She suggested that, by doing this, staff can determine some of the lessons learned and assemble more standardized processes that might apply across the organization. Mr. Espinosa stated that he gathered staff to complete a “lessons learned” exercise after a project’s close-out. At that time, they discussed if there were any deficiencies in certain practices. Staff had a vendor-reliant component, an internal component, and the project component. Consequently, the project managers had to ensure that communication was happening through the life of the project in order to be more accountable and informed.

Commissioner Kirtman asked about the customization that was happening within the Epicor software. He also inquired if this software company was using the Lottery as part of their overall software releases for other entities that they conduct business with. Additionally, he asked if the Lottery was paying to help their software be better for other clients. Mr. Espinosa responded that there are other accounting systems that he has dealt with that do a lot of in-house creation. Epicor utilizes more of a COTS (commercial off-the-shelf) system; they customize outside of that COTS system with whatever requirements the Lottery needs for our day-to-day business. Chairman Ahern added that it is wise on their part to keep advancing. He noted that perhaps the Lottery gets the advantage of their work with other entities, as well as the benefit from that scope of their work.

Commissioner Stern stated that the Lottery staff has been through the proof-of-concept phase and moving to acceptance testing, which means staff has a good handle on the business process. He is hoping no minor modifications around the acceptance testing will need to be configured so that staff will not return with another major overhaul of the business process.

Mr. Espinosa stated that, before the start of user acceptance testing, staff will have an end-to-end execution, which will give them more insight on how to prepare for future obstacles. Commissioner Stern asked if the budget for this contract will include training to make sure staff is prepared when the product goes live. Mr. Espinosa responded that it does have various training components that include database conversion and implementation, which will hopefully ensure awareness and acceptance. Commissioner Stern emphasized that staff should be spending time on that. Anytime a new system of records is rolled out, the Lottery should make sure that on the first day of implementation, everyone knows their marching orders.

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

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

f. Lottery Investment Policy and Investment Strategy

Deputy Director of Finance, Nicholas Buchen, requested Commission approval of the Lottery's existing Investment Policy and Investment Strategy for 2021, which focuses on ongoing investment activity in support of SuperLotto Plus, Mega Millions, Powerball, and various Scratchers games. The Investment Policy also includes monitoring, maintenance, and identification of risks within the Lottery's Investment Portfolio.

Commissioner Mills noted that according to the report, the Lottery incurred an investment loss this year. She asked if it was all unrealized and if that was

expected to impact the Lottery's cashflow requirements when they come due. Mr. Buchen stated that it is an entirely unrealized loss, so it does not impact the amount that the Lottery gives to education. It is a result of the changes in the market, and it does not impact the availability of cash to make payments. It is just a loss on the books compared to the expected gains, however, the Lottery still has sufficient cashflow to make the scheduled payments.

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

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

9. Commissioner General Discussion

10. Scheduling Next Meetings

The next Commission Meeting is tentatively scheduled for November 18, 2021.

11. Public Discussion

For Public Discussion, Chairman Ahern sought public comments or questions. No one came forward.

12. Adjournment

Meeting adjourned at 10:48 a.m.