

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – September 26, 2024

Sacramento, California

1. **Call to Order**

Chairman Anthony Garrison-Engbrecht called the meeting of the California State Lottery Commission to order at 10:08 a.m.

2. **Pledge of Allegiance**

Chairman Garrison-Engbrecht led the Pledge of Allegiance.

3. **Roll Call**

Chairman Garrison-Engbrecht asked Rebecca Estrella to call the roll.

Commission Members Present:

Chairman Anthony Garrison-Engbrecht
Vice Chair Keetha Mills
Commissioner Tiffani Alvidrez
Commissioner Alexandre Rasouli

California State Lottery staff and presenters:

Harjinder K. Shergill Chima, Director
Fernando Aceves, Chief Counsel
Sharon Allen, Deputy Director of Sales and Marketing
Nicholas Buchen, Deputy Director of Finance
Rebecca Estrella, Acting Assistant to the Commission

4. **Consider Approval of the Agenda**

Chairman Garrison-Engbrecht asked if the Commissioners had any suggestions or changes to today's agenda. Commissioner Alvidrez made the motion to approve the agenda, and the motion was seconded by Commissioner Rasouli. The motion passed unanimously.

5. **Approval of the Minutes**

Chairman Garrison-Engbrecht asked if there were any corrections to the minutes of the June 27, 2024, Commission meeting. Commission Mills made the motion to approve the minutes, and the motion was seconded by Commissioner Rasouli. The motion passed unanimously.

6. **Informational Items**

a. Director's Comments

Director Chima stated that her report would be short since it is only a few months into the new fiscal year. Through mid-September, she reported, total Lottery sales

are just over \$1.7 billion. Scratchers® are just shy of Lottery's goals through the summer, which is typically the Lottery's slowest time of the year.

Since the start of the fiscal year, Powerball's® jackpot has only reached \$212 million, which is part of why the Lottery's sales are so soft. Director Chima also shared that someone won \$44 million in Dana Point in August. Mega Millions® rolled up to \$800 million, and although the jackpot winner was in Texas, the California Lottery's sales from that sequence, which started back in June, provided approximately \$66.8 million to public schools. Jackpot games are lower than at this time last year due to the different jackpots this year. At this time last year, jackpot fever was in full effect. Powerball's® jackpot had rolled to \$785 million; Mega Millions® exceeded \$1.5 billion, and SuperLotto Plus® reached \$82 million, which are very high jackpots compared to the levels so far this year. Sales for Daily Games and Hot Spot® are coming in as expected. Over the first two months, the Lottery's contribution to education totaled \$282 million and is expected to increase. Sales and profit goals from jackpot games for the past year were increased based on the rollover luck from last year. As the year progresses and jackpots roll higher, the Lottery's profits will be closer to the profit goals. Director Chima asked the Commissioners if they had any questions.

Commissioner Mills asked if there were adjustments made to the Lottery's marketing strategies during lower jackpot periods. Director Chima asked Deputy Director Sharon Allen to come up and provide additional information on the Lottery's marketing strategies. Ms. Allen shared several strategies the Lottery uses with regular jackpot players when jackpots get a little larger. Examples include social media, email, promotions at retail with window jackpot signs, Scratchers signs, and an advertising effort called Jackpot Alerts, which helps bring awareness to growing jackpots.

7. Consent Calendar

8. Action Items

a. Investment Policy and Investment Strategy

Nick Buchen, Deputy Director of Finance, provided an overview of the Lottery's Investment Policy and Investment Strategy, and how they work together to ensure sufficient cash flow to make scheduled payments to certain Lottery prize-winners who choose the annuity payout option instead of a lump sum payout option. The Investment Policy requires both the Investment Policy and Investment Strategy to be reviewed and approved by the Lottery's Commission annually. The primary function of both the Investment Policy and Strategy is to ensure the investments yield only what is needed for the scheduled annuity payments to prize-winners. The Investment Policy lays out the requirements of the Lottery's Investment Program which revolve around timeliness of payments to annuity prize-winners and safety of principal. The Policy also includes

permitted investment categories and places limits on certain securities to promote diversification and reduce risk. The Policy requires the Lottery to review annually to ensure that its guidelines remain consistent with current principles and standards for the investment of funds managed by a public entity. The Lottery's Investment Strategy focuses on two main areas: Activity and Maintenance. He explained that the Investment Activity ensures sufficient cashflow to make scheduled payments to top prize-winners who choose the annuity payout option, and Maintenance is for monitoring and mitigation of potential investment risk. Mr. Buchen recommended the Commission approve the Lottery's existing Investment Policy and Strategy.

Commissioner Alvidrez asked about the consulting firm the Lottery uses and how the investments are tracked to maximize investment to public education. Mr. Buchen explained that the State's Treasury Office acts as the Lottery's contractor for purchasing United States Treasury Bonds for everyday purchases. Contracting with another entity to purchase securities is a competitive bid process.

Commissioner Mills asked if we use a consultant or the Treasurer's Office. Mr. Buchen said the Treasurer's Office. The Lottery currently does not have a consultant, but, if economic conditions were such that it would make sense to invest in higher risk, higher yielding types of securities, the Lottery would use a competitive bidding process to hire a consulting firm.

Commissioner Alvidrez asked what the threshold would be or what the triggers are that determine when the Lottery needs to bring in a consultant. Mr. Buchen stated that the Lottery had only used a consultant once during the great recession when the economy softened to a point where it made sense to do that. There are no automated triggers, but many firms would likely approach the Lottery to offer consulting services in an economic downturn.

Chairman Garrison-Engbrecht asked if there were any more questions or any from the public. There were none. Commissioner Mills made a motion to approve Action Item 8(a), and Commissioner Alvidrez seconded. The motion passed unanimously.

b. Scientific Games LLC Instant Ticket Printing Contract Extension

Sharon Allen, Deputy Director of Sales and Marketing, began by presenting a general overview of the three scratchers vendor contracts the Lottery uses: Scientific Games, Pollard banknote, and IGT Global Solutions. They are the only three vendors in the world, she reported, that can provide the specialized printing quality, volume, and security the Lottery requires. The three contracts were first awarded by the Commission in 2013 and are set to expire on

November 30, 2024. The Lottery is requesting to extend all three contracts for one year to ensure uninterrupted Scratchers sales and will a request for proposal in Spring of 2025.

Commissioner Mills asked what the processes and strategies are to make sure the Lottery is getting the best price on these contracts. Ms. Allen explained the Lottery consults with colleagues in other jurisdictions and states to share pricing and best practices. The Lottery will leverage the RFP competitive bidding process. Ms. Allen stated that Scientific Games (SG) is the primary vendor for the Lottery and plays a key role in the overall success with Scratchers® sales and the Lottery's contribution to education. SG is responsible for most of the Scratchers® printing for the Lottery and offers dedicated staff and marketing support, making the vendor a reliable business partner. The current authorized expenditure is \$246.6 million with an estimated \$29 million available of the current term. An increase of \$19.6 million expenditure authority is recommended. Ms. Allen recommended that the Commission approve the extension for one year and increase of the expenditure authority.

Commissioner Mills asked how the Lottery decides what vendor to use for which needs and how the work is distributed among the three vendors. Ms. Allen answer that SG is the primary vendor and does most of the printing. She explained that each vendor has different services to offer, and it depends on which one will meet the Lottery's needs and goals. Commissioner Mills asked if the pricing was consistent between the three. Ms. Allen said it varies based on printing amount. The goal is to get the best product and best performance.

Commissioner Alvidrez asked what the process is to go out to bid when the universe is so tight, including the timeline for when the Lottery starts crafting scope of work. Ms. Allen stated there is no exact schedule finalized yet, but there is an anticipated release date in the spring, and there will be a presentation for Commission approval before the contracts end. Commissioner Alvidrez asked if the Lottery is certain there have not been any additions into the market in the past 11 years. Ms. Allen said none have been identified, and the Lottery is constantly checking.

Chairman Garrison-Engbrecht asked if there were any more questions or anyone from the public had questions on Action Item 8(b). There were none. Commissioner Mills made a motion to approve Action Item 8(b) and Commissioner Rasouli seconded. The motion passed unanimously.

c. Pollard Banknote Limited Instant Ticket Printing Contract

Sharon Allen, Deputy Director, Sales and Marketing stated that the secondary Scratchers® printing vendor, Pollard Banknote Limited, plays a key role in the Lottery's overall success with sales and, in turn, contributions to education. The

current maximum authorized contract expenditure is \$116.6 million with approximately \$11 million available. To allow for sufficient funding, an increase of \$10.1 million is recommended. Ms. Allen recommended the Commission approve the Pollard contract extension for one year and increase the expenditure authority with a maximum contact expenditure amount of \$126.7 million.

Chairman Garrison-Engbrecht asked if there were any questions regarding Action Item 8(c) from the Commissioners or from the public. There were none. Commissioner Mills made a motion to approve Action Item 8(c) and Commissioner Rasouli seconded. The motion passed unanimously.

d. IGT Global Solutions Corporation Instant Ticket Printing Contract Extension

Sharon Allen, Deputy Director, Sales and Marketing stated that IGT Global Solutions Corporation (IGT) is another secondary vendor that plays an important role in the Lottery's success with Scratchers® sales and ultimately the Lottery's contributions to education. Approximately \$13 million of funding is remaining in the current contract that is sufficient for the one-year extension. Ms. Allen recommended the Commission approve the extension of IGT's Instant Ticket Printing contract for one year through November 30, 2025, with the maximum expenditure authority remaining at \$25 million.

Chairman Garrison-Engbrecht asked if there were any questions from the Commissioners or from the public regarding Action Item 8(d). There were none. Commissioner Mills made a motion to approve Action Item 8(d). Commissioner Rasouli seconded. The motion passed unanimously.

9. Commissioner General Discussion

Chairman Garrison-Engbrecht proceeded with Item 9, Commissioner General Discussion. Commissioner Mills commented that the meeting was very brief and efficient, but when there aren't many agenda items, she suggested it might be an opportunity to bring forward some additional informational items to help the Commissioners continue to learn and grow and be better governors of the organization. Bringing everyone together for such a short meeting seems like a lost opportunity, she said, and suggests using the time in ways that would be helpful to the Commissioners.

Director Chima replied that the Lottery is working on some informational items for the next meeting and the rest of the fiscal year.

Chairman Garrison-Engbrecht commented that one of the things they could do is to identify some topics that would be helpful for learning and development for the

Commissioners. Some topics may be operational or some regarding the ongoing work the Lottery has been doing with various and past projects. Director Chima agreed and suggested the Commissioners put together a short list of top topics of interest and staff could prepare some presentations.

Commissioner Mills commented that for the contracts Ms. Allen presented on, it would have been nice to have some information on how these contracts impact the Lottery to give more context to what the Commissioners are voting on.

10. Scheduling Next Meetings

The next Commission Meeting is tentatively scheduled for November 21, 2024, in Sacramento.

11. Public Discussion

Chairman Garrison-Engbrecht asked if there was anyone from the public who wanted to address the Commission. No one came forward.

12. Adjournment

Chairman Garrison-Engbrecht stated that before adjourning the meeting, he wanted to recognize someone who was not present. Commissioner Gregory Ahern recently resigned from the Lottery for personal reasons and to the Chair honored Ahern's time serving on the Lottery Commission. Commissioner Ahern was first appointed to the Commission by Governor Jerry Brown in 2012. He served as Chairman for at least half of that tenure. He was a big supporter and a steadfast champion of the good work that has been done across the State for the Lottery and its leadership. He thanked Commissioner Ahern for his service on behalf of the Commission and the entire Lottery for his dedication to serve the State of California.

Commissioner Alvidrez commented that, as a matter of public record, it is important to acknowledge Commissioner Ahern's service to the Commission.

Chairman Garrison-Engbrecht stated that time will be made in the coming weeks to celebrate his service to the State of California. He adjourned the meeting in Commissioner Gregory Ahern's honor at 10:41 a.m.