

# CALIFORNIA STATE LOTTERY COMMISSION

Minutes – June 25, 2020

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 Nathaniel Kirtman  
Commissioner Peter Stern  
Commissioner Keetha Mills

California State Lottery staff and presenters:  
Alva V. Johnson, Director  
Fernando Aceves, Chief Counsel  
Nicholas Buchen, Deputy Director of Finance  
Harjinder Chima, Chief Deputy Director  
Sharon Allen, Deputy Director of Sales and Marketing  
Jon Schlussler, Deputy Director of Information Technology Services  
Elisa Topete, Assistant to the Commission

## 4. **Election of Chair and Vice Chair of the California State Lottery Commission 2020-21**

Chairman Ahern called upon Fernando Aceves, Chief Counsel, to review the rules and Commission elections. Mr. Aceves stated the rules according to the California State Lottery Act. Commissioner Nathaniel Kirtman nominated Chairman Ahern to remain as Chairman and Commissioner Keetha Mills nominated Commissioner Peter Stern for Vice Chairman. With no other nominations for both positions, Mr. Ahern was unanimously approved as Chairman and Mr. Stern was unanimously approved as Vice Chairman.

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

Chairman Ahern asked if any of the Commissioners wanted to make changes to the June 25, 2020 proposed agenda. Alva Johnson, Lottery Director, stated that he would be removing Action Item 9e from the agenda. Staff will be doing additional

work on this item and will bring it back to the Commission later. Commissioner Mills made the motion to approve the amended agenda and was seconded by Commissioner Stern. The agenda passed unanimously.

**6. Approval of the Minutes**

Chairman Ahern asked if there were any additions or corrections to the May 28, 2020 minutes. Commissioner Stern made the motion to approve the minutes for the May 28, 2020 Commission Meeting and was seconded by Commissioner Mills. The minutes passed unanimously.

**7. Director's Report**

**Director's Comments**

Director Alva Johnson provided estimates of year-end Lottery sales. Despite the stay-at-home restrictions imposed to slow the spread of the COVID-19 virus, as well as the lowest number of big jackpots that the Lottery has seen in the Powerball® and Mega Millions® games, total sales for this fiscal year are estimated to be close to \$6.6 billion. These sales, along with the contribution to education from product sales, will be about 10% below our original goals for this fiscal year. In terms of dollars, sales will be about \$700 million lower than the fiscal year goal and our contributions to education will be nearly \$130 million shy of our goal when the unclaimed prizes are factored into the contribution totals.

Director Johnson provided a comparison of last year's record number for sales and contributions and reviewed sales figures by product. Overall, the Lottery estimates that education will receive approximately \$1.536 billion, which will be about 18% lower than last year's record amount. Although the Lottery's sales and contributions to education will not reach their fiscal year goals, most businesses have seen sales decline, and many have been impacted more severely by the pandemic than the Lottery.

## 8. Consent Calendar

## 9. Action Items

### a. Fiscal Year 2020-21 Budget

Deputy Director of Finance, Nicholas Buchen, presented the proposed annual budget with a sales goal of approximately \$7.1 billion and an estimated \$1.6 billion provided to public education. The sales goal and contribution to education are based on the execution of an array of Business Plan initiatives designed to result in the sustainable growth of future revenues. The proposed budget is designed to safely maximize supplemental funding for California's public education for FY 2020-21 and to sustainably grow the annual net revenues for public education.

Commissioner Mills asked how the Lottery responded to the Governor's cuts in payroll and operations costs. Mr. Buchen responded that his staff worked with each division to look for opportunities to reduce costs or defer expenses. Specific to employee compensation, the Lottery reflected a modest across-the-board reduction to reflect the spirit of the reduction assumed by the Governor's state's budget. Ms. Mills stated that the Lottery should proceed with caution when requesting additional personnel due to the pandemic and the Governor's cuts.

Commissioner Stern asked why the Lottery was projecting the same sales level for both Powerball and Mega Millions for Fiscal Year 2020-21. Mr. Buchen stated that, given the changes recently made in both games to eliminate the mandatory starting jackpot and the pre-determined incremental increases between rolls, there is no longer anything that differentiates the two games in terms of how quickly the jackpots will grow. Mr. Stern also asked for more details regarding Hot Spot sales, as this figure was the most impacted by the health crises. Mr. Stern specifically inquired if we knew how the \$323 million, we are projecting in Hot Spot sales in FY 2020-21 compares to what we would be projecting absent the pandemic? Mr. Buchen answered that it would have been roughly \$350 million.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 9(a). No one came forward, so he proceeded to the motion of approval.

Commissioner Mills made the motion to approve Action Item 9(a) and it was seconded by Commissioner Kirtman. The motion passed unanimously.

### b. California Highway Patrol Interagency Agreement

Chief Deputy Director, Harjinder Chima, requested Commission approval for a new two-year Interagency agreement with the California Highway Patrol (CHP) effective August 23, 2020 through August 22, 2022. The Deputy Director and

Assistant Deputy Director positions in the Security and Law Enforcement Division (SLED) are Governor-appointed positions that remain vacant until filled. Since August 23, 2019, these two positions have been filled by two CHP employees using a one-year Interagency agreement that will expire on August 22, 2019. The new Interagency agreement will continue to use the existing CHP employees to fill the Deputy Director and Assistant Deputy Director positions in SLED.

Commissioner Mills asked how the Lottery was addressing the civil unrest. Director Johnson stated that staff went through a Professionalism & Respect training and is also developing a Diversity and Inclusion seminar for all staff later this year. Director Johnson further stated that maintaining a fair and equitable workplace is the standard the state sets for all its agencies and departments and we are working hard to make sure that the Lottery adheres to that standard. Regarding specific recent incidents of civil unrest, the Lottery took the necessary precaution to maintain the safety and security of our personnel and our facilities. Director Johnson explained that the Lottery followed direction from the administration when it came to the shelter-in-place order. Director Johnson maintained that the Lottery adhered to all directives related to the pandemic. Staff is making sure headquarters, field, and distribution centers are safe during these challenging times. The Lottery is also exploring various methods for ensuring the safety of its employees. Director Johnson shared that the Executive Management Team is meeting regularly to continue the open lines of communication so that when problems are identified, staff can determine the correct resources and identify affected personnel in order to resolve situations that may arise.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 9(b). No one came forward, so he proceeded to the motion of approval.

Commissioner Kirtman made the motion to approve Action Item 9(b) and was seconded by Commissioner Stern. The motion passed unanimously.

#### Marketing Promotions and Point of Sales Services Contract Extension and Contract Amendment

Deputy Director of Sales and Marketing, Sharon Allen, requested Commission approval of funding for a third and final one-year extension of the Alcone Marketing Group (Alcone) contract for the period of September 1, 2020 to August 31, 2021. Alcone assists the Lottery in the development and design of campaign point-of-sale displays, as well as with promotional programs for Lottery products distributed throughout 23,000 retail locations statewide.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 9(c). No one came forward, so he proceeded to the motion of approval.

Commissioner Stern made the motion to approve Action Item 9(c) and was seconded by Commissioner Kirtman. The motion passed unanimously.

c. Telecommunications Contract

Deputy Director of Information Technology Services, Jon Schlussler, requested Commission approval to renew telecommunications services with Consolidated Communications, Inc. (CCI) under a new two-year contract term from August 1, 2020 through July 31, 2022. CCI provides combined telecommunication services for the Lottery's 12 locations into one consolidated monthly bill. In addition to supporting telecommunication needs, CCI hosts the Lottery secondary site and is fully responsible for supplying power, lights, access to network bandwidth, and physical security of the data center.

Commissioner Mills asked what work was done to ensure that the Lottery received best value from CCI through this contract given that CCI is the only provider that can meet the Lottery's needs.

Mr. Schlussler stated that staff thoroughly examined various providers for CalNet and other statewide providers that offer services similar to what CCI provides. He indicated that his team compared the back-up circuits and their primary circuits and found that the costs were consistent. Thus, it was determined CCI had fair and reasonable costs when comparing from the same criteria to other vendors. Because CCI provides the service to all 12 different locations, it is difficult to get an apples to apples comparison, but Mr. Schussler was able to discuss the comparison of the individual connections with each district office. Again, after some analysis, it was concluded CCI's costs were fair and reasonable.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 9(d). No one came forward, so he proceeded to the motion of approval.

Commissioner Mills made the motion to approve Action Item 9(d) and was seconded by Commissioner Stern. The motion passed unanimously.

**10. Commissioner General Discussion**

Commissioner Mills asked for the Lottery to consider bringing forward more informational items in addition to the required action items. Specifically, she requested items related to the strategic plan, the budget and other various investments that affect the overall strategic plan. Ms. Mills state that it would be helpful to hear at least one general information item about work that the Lottery is doing to achieve the ambitious goals and the strategic plan.

Director Johnson stated that staff is working on that and had planned to present informational items sooner this year but could not due to some emergencies related to the pandemic that needed immediate attention. Mr. Johnson stated that

he'd like staff to present information on the work they've done with the Lottery's Audit Committee, of which Ms. Mills is the Chair. He shared that the committee continues to ensure that audit items are properly being reviewed and that the Lottery is taking appropriate action in response to the many audits that the Lottery is undergoing. In addition, as we take more active steps to implement the Lottery's public messaging, he will be talking to the Commissioners about what is going to be done in terms of educating the public about the Lottery's accomplishments.

Once the details are finalized, Director Johnson noted that staff will be presenting a summary of information to the Commission. In due time, staff will have the ability to add operational items into the agenda. For example, the Commission approved our continued work with the California Highway Patrol. They are excellent partners with us, leading our SLED group and moving us forward in the right direction. Further, Director Johnson shared that as we continue that work and install longer improvements, staff will update the Commission on its progress. Director Johnson expressed his desire for more informational items to be presented, as was the practice of the prior directorate.

#### **11. Scheduling Next Meetings**

The next Commission Meetings are tentatively scheduled for September 24 and November 29, 2020.

#### **12. Public Discussion**

For Public Discussion, Chairman Ahern sought public comments or questions. No one came forward, so he proceeded to the next item on the agenda.

#### **13. Adjournment**

Chairman Ahern stated that during these unprecedented and challenging times, he appreciates all the work from every member of the California State Lottery. He noted that staff is doing a fantastic job and he commended Director Johnson for the attention that the Lottery is taking to make sure staff is safe and secure during this time. He explained that safety and security is essential, as employees are not going to want to be at work if they cannot safely be productive. Chairman Ahern noted that, without the great efforts of the staff, the Lottery is not going to be able to contribute the monies for education. He congratulated Commissioner Stern on his appointment to Vice Chairman. He also thanked Commissioner Kirtman on his motion to continue as Chairman and is happy to be given this great opportunity.

Meeting adjourned at 11:21 a.m.