

**STATE OF CALIFORNIA  
TRANSCRIPT OF PROCEEDINGS**

**CALIFORNIA STATE LOTTERY COMMISSION  
COMMISSION MEETING**

**TIME:** 10:00 a.m.  
**DATE:** Thursday, September 23, 2021  
**PLACE:** Held remotely consistent with Executive Orders N-25-20 and N-29-20 using the Microsoft Teams platform

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**A P P E A R A N C E S**

**California State Lottery Commission**

Gregory Ahern  
Chair of the Commission  
Commissioner

Peter Stern  
Vice Chair of the Commission  
Commissioner

Nathaniel Kirtman, III (Joined the meeting at 10:07)  
Commissioner

Keetha Mills  
Commissioner

**Participating Lottery Commission Staff**

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

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**Thursday, September 23, 2021**

**Sacramento, California**

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**CHAIR AHERN:** We will start our California State Lottery Commission Meeting. For the record, today's date is September 23<sup>rd</sup>, 2021. It is 10 o'clock exactly. We'll call the meeting to order, and I'm going to start with the Pledge of Allegiance. If you'd be so -- kindly rise for the Pledge, and join with me:

*(The Pledge of Allegiance was recited.)*

**CHAIR AHERN:** All right, thank you very much. Now, Item Number Three, will the Secretary please call the roll?

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

**COMMISSIONER STERN:** Here.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Present.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Here. All right, do we expect to have Nate on the call today, or is he going to have an excused absence?

**MS. TOPETE:** We will check with him, Chairman.

**CHAIR AHERN:** Okay. All right. Item Number Four. Do any of the Commissioners have any changes to

today's agenda?

**COMMISSIONER STERN:** No changes.

**CHAIR AHERN:** Hearing none, do I hear a motion to adopt the agenda?

**COMMISSIONER STERN:** Move to adopt.

**CHAIR AHERN:** We have a motion; we need a second.

**COMMISSIONER MILLS:** Second.

**CHAIR AHERN:** We have a motion and a second.

Will the Secretary please call the roll?

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

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right. Item Number Five is Approval of the Minutes. Do any of the Commissioners have any corrections they want to recommend for the Minutes?

**COMMISSIONER MILLS:** No corrections.

**COMMISSIONER STERN:** No corrections.

**CHAIR AHERN:** Hearing none, then, well, do I hear a motion to approve the minutes of the June 24, 2021, Commission Meeting?

**COMMISSIONER MILLS:** I'll move to approve.

**COMMISSIONER STERN:** Second.

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

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

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right. The next item on the agenda is Informational Items. We'll call on our Director, Alva Johnson, for his report.

**DIRECTOR JOHNSON:** Very good. Thank you, Mr. Chairman. I respectfully ask folks turn their attention to the presentation we have via slide. We'll begin with Slide Number One. This is a report to the Commission on our sales in the most recent period. Total Lottery sales through Saturday, September 11<sup>th</sup> are almost \$1.9 billion. This is 12 percent above the sales goal and 23 percent 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 percent ahead of goal and 22 percent over last fiscal year's sales. The multi-state games, which include Powerball and Mega Millions, have started this

fiscal year with \$180 million. This is eight percent higher than goal but 72 percent higher than last fiscal year's sales during the same time of the year. Both games have had rolling jackpots that have contributed to these strong sales. Powerball specifically has rolled at a slightly higher level and has a new third draw on Monday. All of these changes have resulted in sales 20 percent higher than goal and almost double last year's Powerball sales through mid-September. We will discuss this more on a later slide. Through mid-September, sales for California's in-state jackpot game, SuperLotto Plus, ran par with goal and last year's sales. Since our last Commission meeting in June, the SuperLotto Plus jackpot was finally hit on July 10<sup>th</sup> after its 55<sup>th</sup> consecutive roll. One lucky winner in the Van Nuys area took home the \$62 million jackpot. This is nearly \$10.4 million or seven percent higher than we've seen for the same number of draws during the sequence in 2019. 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. Next slide,

please.

We also assess how the Lottery is performing in terms of its most important measure, the contributions to Public Education. These figures are based on the Lottery's monthly cumulative financial sales report through August 31<sup>st</sup>. Just two months into the fiscal year, total sales are running ten percent ahead of its goal. Estimated contributions to Education are over \$305 million, which is two percent higher than goal. Profits are trailing slightly behind the sales performance, as strong sales are continuing from the higher-priced Scratchers games. The \$10, \$20, and \$30 Scratchers sales are above goal, while the more profitable Scratchers, which are at the lower price points, are slightly below goal. This results in the gap you see here. Next slide, please.

Between our two multi-state games, we had over 20 jackpots over \$200 million in the first few months of the year. At this point in time last year, our highest jackpot was \$169 million. Thus far this fiscal year, the jackpot games have generated \$180 million in sales and over \$60 million in profits. Due to their higher-rolling jackpots, Mega Millions and Powerball had average year-to-date profits more than 50 percent higher than the start of the last fiscal year. Next slide, please.

High-rolling jackpots is not the only thing that

happened in Powerball in recent months. Just four weeks ago, Powerball added a Monday draw to its existing lineup of Wednesdays and Saturdays. The chart displayed shows weekly Powerball sales since the beginning of the fiscal year. While sales have been rising, the jackpot has also been growing. It reached \$300 million during the first week with three draws. With only a few weeks under our belts, the data so far has shown mixed results, and comparing the sales to previous weeks having comparable jackpots, two of the first three weeks show higher sales with the extra draw, while one week does not. The Lottery will continue to closely monitor sales and profits resulting from this change, and with more sales weeks, we will be able to better isolate and quantify the effect of the third draw from other factors such as increasing jackpots. Next slide, please.

September brought the launch of the new Scratchers Brand Repositioning Campaign. This campaign was developed over several years after extensive research and is part of the Lottery's Long-Term Strategic Plan. The multi-year effort is designed to increase the appeal of Scratchers games and frequency of play among casual players, new players, and last players in order to responsibly grow Scratchers revenue and Lottery's contributions to Education in the years ahead. This will mark a shift in Scratchers marketing, from focusing on individual Scratchers games to

supporting the entire category and building the Scratchers brand. This brand initiative diffuses barriers by repositioning Scratchers as something that provides a small moment of entertainment that consumers should consider when they are looking for something fun to do or play. Anchored by the tag line, "A little play can make your day," the campaign helps show that Scratchers can add a little unexpected fun into your day. Advertising will include TV, radio, and out of home in the State's largest media markets, as well as Statewide digital audio, video, and social media. There will also be ongoing point-of-sale promotion at Lottery retailers and support in Lottery's digital properties, including website, mobile app, email, organic social media, and Second Chance. The first year of this multi-year effort will be focused on building awareness of the Scratchers brand and owning the play position across all marketing communications. In the initial launch period, which started just this week, advertising will include TV, radio, and out-of-home in the State's largest media markets, as well as at Statewide digital, audio, video, and social media. There will also be ongoing point-of-sale promotion at Lottery retailers and support on Lottery's digital properties, including website, mobile app, email, organic social media, and Second Chance. Additionally, efforts geared towards core players such as monthly new game

announcements and Second Chance promotions won't continue under this new brand theme, while the Scratchers product plan will include a mix of offerings that appeal to casual and new players in addition to continuing to serve our loyal core players. Many staff hours and resources went into the new Scratchers Repositioning Campaign and the Powerball Third Draw addition. I want to take a moment to thank all of those staff in Marketing, IT, and other divisions who had a key part in making these changes happen. Our players are sure to notice that there are exciting new things happening at the Lottery. Mr. Chairman, that concludes my report.

**CHAIR AHERN:** All right. Thank you very much. Appreciate that. We're going now to Item Number Seven, which is the Consent Calendar, and I don't see any items on Consent, so we'll proceed to the Action Items, starting with Number 8a; 8a is the Extension to the Time Advertising Contract, and we'll call on Sharon Allen.

**MS. ALLEN:** Hi. Good morning, Chairman and Commissioners. I am here to present Item 8a. This is the Extension of the Time Advertising Contract. The Lottery currently contracts with Time Advertising for Asian market advertising services. In 2015 the Commission awarded Time Advertising a five-year contract with the option to extend for two additional one-year terms, with an initial contract expenditure authority of \$21 million. Last year, the

Commission approved the first one-year extension of the contract, which is currently set to expire on November 7<sup>th</sup>, 2021. Time Advertising is responsible for assisting the Lottery in overall market analysis, strategy development, and the creation and production of in-language advertising assets that communicate directly with Asian consumers in California. Over the course of the contract, Time has consistently provided a high level of service. An extension for Time Advertising is necessary to avoid resource strains of running concurrent procurement efforts. The Marketing team is scheduled to release an RFP for a Promotions and Retail Marketing contract later this month. The Marketing contract RFP processes are extensive and lengthy and place an extraordinary strain on staff resources. Extending the contract will allow the staggering of the two procurement efforts and provide Lottery staff sufficient time to develop and release an RFP for a new Asian market advertising services contract early next year. The extension will ensure that the Lottery will continue without interruption efforts to address this segment in a relevant and effective manner through the end of the contract. We estimate that the remaining expenditure authority will be adequate to cover the activities during the extension period. Therefore, staff recommends the Commission approve a one-year extension to the Time Advertising Contract that will

bring the new expiration date to November 2022. With no additional funds required, the maximum authorized contract expenditure authority will remain at \$21 million. And with that, I'd be happy to answer any questions.

**CHAIR AHERN:** All right, do any of the Commissioners have any questions at this time regarding Action Item 8a? Hearing none, does any of the public want to address the Commission at this time regarding Action Item 8a? Hearing none, do I hear a motion to approve Action Item 8a, Extension to the Time Advertising Contract?

**COMMISSIONER STERN:** Move Item 8a.

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

**COMMISSIONER MILLS:** I'll second.

**CHAIR AHERN:** There's a motion and a second. Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right, Action Item 8a passes. Thank you very much, and welcome, Nate. Nice to

have you aboard.

**MS. ALLEN:** Thank you.

**COMMISSIONER KIRTMAN:** Thank you, Sheriff.

**CHAIR AHERN:** We'll go to Action Item 8b, Problem Gambling Prevention Contract, and we'll call on Paula.

**MS. NEGRETE:** Hi. Good morning, Commissioners.

**CHAIR AHERN:** Good morning.

**MS. NEGRETE:** In June I presented an informational item for Problem Gambling Prevention Services provided by the California Department of Public Health Office of Problem Gambling. We experienced an administrative delay in the coordination of this contract because of the Pandemic. Given that delay, the contract had this hard-start date effective July 1<sup>st</sup> to avoid an interruption in services. Item 8b is a request for the approval for the Lottery to enter into a new two-year interagency agreement in the amount of \$278,160 beginning July 1<sup>st</sup> through June 30<sup>th</sup>, 2023. This interagency agreement specifies that the Office of Problem Gambling will provide the Lottery with maintenance of the State's Problem Gambling Helpline reporting data on the helpline, development of appropriate literature and brochures for the distribution to helpline clients and Lottery retailers, and assistance in drafting content to raise public awareness on problem gambling for Lottery communications. It also provides the

Lottery with membership in the Office of Problem Gambling's Advisory Group. That is a committee that is comprised of regulating agencies, gambling industry representatives, and healthcare professionals, researchers, and educators who specialize in the treatment of problem gambling. This group convenes to prioritize raising awareness on gambling disorders and treatment. This interagency agreement helps develop the Lottery's Responsible Gaming Program, a program that has received the highest global certification from the World Lottery Association. The Lottery's Responsible Gaming Program widely promotes the State's Problem Gambling Helpline, 1-800-GAMBLER, on its games and throughout its various communication channels. I'd be happy to answer any questions you may have.

**CHAIR AHERN:** All right, do any Commissioners have any questions regarding Action Item 8b? All right, does any member of the public want to address the Commission at this time regarding Action Item 8b? Hearing none, do I hear a motion to approve Action Item 8b, Problem Gambling Prevention Contract?

**COMMISSIONER MILLS:** I'll move to approve.

**CHAIR AHERN:** We have a motion; is there a second?

**COMMISSIONER STERN:** Second.

**CHAIR AHERN:** We have a motion and a second; will

the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right, thank you very much, Paula. Action Item 8b passes. We'll move on to Action Item 8c, Request to Ratify the Contract Amendment with Securitas Security Services. We'll call on Jeremy.

**MR. LINSON:** All right, thank you. Good morning, Commissioners.

**CHAIR AHERN:** Good morning.

**MR. LINSON:** I'm here this morning to request a ratification of an amendment to this Securitas Security Services Contract for additional funding through the end of the contract term of December 27, 2021. Securitas provides uniformed security guard services for all Lottery facilities. The current Securitas contract began on December 28<sup>th</sup>, 2016. The scope of the contract initially was to provide uniformed security guard services at our Lottery Headquarters facility, the Southern Distribution Center, and the Northern Distribution Center. Due to the current COVID-

19 Pandemic, the need to ensure safety at all of our facilities Statewide increased. As the Pandemic continued, the Lottery needed to create a mechanism for our customers to turn in their claim forms. A drop-box was established at each district office, allowing customers to securely drop off their claim forms. The Lottery decided to expand the current staffing of the Securitas guards on July 17<sup>th</sup>, 2020. The increased security presence allowed the Lottery to open our district offices in this limited capacity. The security guards ensured social distancing and personal protective equipment requirements were being met by all customers, allowing for claims to be securely submitted in the district office Lottery drop-boxes. Due to the expansion of the security guard services to all nine of our district offices, the cost of services obviously increased. Additionally, benefits and wage increases have occurred which were not factored into the original contract in 2016. Because of these factors, an additional \$1,457,111.92 is required to cover expenses through the end of the current contract term, which is set to expire on December 27<sup>th</sup>, 2021. Lottery staff recommends that the Commission approve the ratification of the Lottery's contract amendment for the additional funding amount, and I will gladly take any questions if there are any.

**CHAIR AHERN:** Okay. Do any Commissioners have

any questions or comments regarding Action Item 8c?

**COMMISSIONER MILLS:** Chair Ahern, this is Commissioner Mills. I do have a question.

**CHAIR AHERN:** Go right ahead.

**COMMISSIONER MILLS:** Thank you. Hi, Jeremy. I was wondering if you could speak a little bit more to the cost increase related to the salaries and benefits and the process to assess kind of the reasonableness of that and maybe an explanation around if we had a long-term contract, maybe why that wasn't already included in the contract?

**MR. LINSON:** Yes, ma'am, thank you. The reason why it appears that we ran out of money is because of the increases in the minimum wage. With the minimum wage, that increases our entry-level security guards, and because of that, we had to increase the wages of all the security guards, not just the entry level. So unfortunately, in 2016, they did not foresee the changes in the minimum wage, so that's really why the increase as it relates to the wages and benefits.

**COMMISSIONER MILLS:** Excellent, thank you.

**CHAIR AHERN:** Any other questions? I think -- Peter, did you have a question?

**COMMISSIONER STERN:** That answered it, so thank you. I'm good.

**CHAIR AHERN:** Okay. Thank you. Any other

questions? Does any member of the public want to address the Commission at this time regarding Action Item 8c? Hearing none, do I hear a motion to approve Action Item 8c, Request to Ratify the Contract Amendment with Securitas Security Services?

**COMMISSIONER STERN:** Motion to approve.

**COMMISSIONER MILLS:** Second.

**CHAIR AHERN:** We have a motion and a second.

Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right, Action Item 8c passes. We'll move on to Action Item 8d, Advertising Tracking Services Contract Amendment, and on to Jim.

**MR. HASEGAWA:** Thank you. Good morning, Commissioners.

**CHAIR AHERN:** Good morning.

**MR. HASEGAWA:** This item is to request approval of a contract amendment that extends the term of the Ipsos Contract by one year. The advertising tracker studies

conducted by Ipsos provide the Lottery invaluable information related to how well the specific executions performed in the marketplace. The ads are assessed on such metrics as recall, brand linkage, and brand linkage is the percentage who recall the ad and properly name the sponsor of the ad as the Lottery or the specific product. Other metrics include persuasion, and the main method that viewers recall from the ad. With results from these studies, the Marketing team can make decisions on, for example, whether to use these executions in future flights or apply these learnings as they develop future advertising, to ensure they maximize their impact. This contract with Ipsos was awarded after a competitive procurement process back in 2018. Ipsos received the highest scores in the rated criteria and offered the lowest costs, and Ipsos demonstrated great experience in this area by having used this methodology to evaluate more than 2,000 advertising campaigns, and this is important because it allows them to create what are called normative scores, allowing them to put the Lottery scores in context of either being above, at, or below average. This contract was approved by the Commission in September of 2018, and the contract started in November of 2018 for a term through October 31<sup>st</sup>, 2021. The contract also included two options to extend, each for one year. Over the contract term, Ipsos has performed extremely well by meeting all

timelines and providing excellent information and insights that demonstrated flexibility in meeting the Lottery's needs; they have provided accurate data and excellent advice and insights. For all these reasons, staff recommends approval of the first of these two extension options, so that the term of the contract will now expire on October 31<sup>st</sup>, 2022. The contract expenditure authority does not need to be increased and will remain at \$384,000. The existing contract expenditure is sufficient for the additional year due to the advertising hiatus that took place during the Spring and Summer of 2020, not 2021 as in the issue memo. During that time, the Lottery was very sensitive to the moment with the Pandemic and did not advertise our products for many months. And with that, I can answer any questions about the proposed contract amendment.

**CHAIR AHERN:** Okay, thank you, Jim.

**MR. HASEGAWA:** Yep.

**CHAIR AHERN:** Do any of our Commissioners have questions or comments on Action Item 8d?

**COMMISSIONER STERN:** This is Commissioner Stern. I do have a quick question. Just based on the insights of all our sales and marketing attribution they're providing, can you provide a couple of examples of how that may have changed our sales and marketing strategies based on the outcomes we received?

**MR. HASEGAWA:** Yeah. I think a prime example has taken place a lot of times with our holiday campaigns, because oftentimes, we do advertise the -- use the same execution for the holiday in multiple years, and so it allows -- in one case, the scores were not as strong as the Lottery wanted, and so they elected to create brand new creative executions to better meet the performance of the advertising as intended. And conversely, there have been other times with other executions that they perform very strongly, and they demonstrated no signs of wear-out, and therefore, we could save the money by not creating new executions that used them in the following holiday season. So those are just a couple of the many examples that this study actually gets used by our Marketing team.

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

**CHAIR AHERN:** Any other questions from our Commissioners? Okay. Does any member of the public want to address the Commission at this time regarding Action Item 8d? Hearing none, do I hear a motion to approve Action Item 8d, Advertising Tracking Services Contract Amendment?

**COMMISSIONER MILLS:** I'll move to approve.

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

**COMMISSIONER KIRTMAN:** Second.

**CHAIR AHERN:** We have a motion and a second.

Will the Secretary please call the roll?

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes.

**MR. HASEGAWA:** Thank you.

**CHAIR AHERN:** All right. Again, Action Item 8d passes. Thank you very much, Jim. We'll move on to Action Item 8e, Amendment to the Epicor 10 Financial System Contract, with Vincent.

**MR. ESPINOSA:** Good morning, Chairman Ahern and Commissioners.

**CHAIR AHERN:** Good morning.

**MR. ESPINOSA:** I'm here to discuss the Epicor Software Corporation Project and needed amendment to the contract budget authority by \$1,184,320. These funds will cover costs associated with moving the project go-live date from September of 2021 to March of 2022, allowing more time for user acceptance testing and go-live preparation phases and provide a budget contingency should the go-live extend to April 2022 due to unanticipated delays. This item also

serves to inform the Lottery Commission of a miscalculation in the previous contract amendment request presented on March 25<sup>th</sup> of 2021 and the corrective measures the Lottery will take in the future to avoid similar issues. The Lottery entered into an agreement with Epicor with a contract term of December 24<sup>th</sup>, 2018, to December 23<sup>rd</sup> of 2023 for the implementation of the E 10 Financial System and supporting applications. The agreement was amended on August 16<sup>th</sup>, 2021, and the budget was increased by \$630,000 for a total contract amount of \$5,230,000. The contract work upgrades the Lottery's current on-premises Epicor 7.4 Financial System, last upgraded in 2013, to the Epicor 10 System, and I believe it's, like, a 10.5 or 10.6; I apologize for not reading an exact version there. The Lottery obtained Commission approval on March 25<sup>th</sup>, 2021, to amend the agreement by \$630,000 to cover costs extending the go-live schedule from May 2021 to September 2021. After the Commission approval, the Lottery identified a \$33,534 miscalculation in the amount requested. It was determined the discrepancies occurred as the Lottery and Epicor did not perform a robust cost-management exercise and sync up expenditures and projections. This resulted in a difference of \$33,534 from what was presented to the Commission on March 25<sup>th</sup>, 2021. Subsequently, the Lottery completed an extensive analysis and reconciled all invoices in future

project needs and validated with Epicor against the project budget amounts left in the contract period. During this exercise, it was discovered that the original contract funding did not include a ten percent project contingency, which is industry standard for project budgeting. This was an oversight on the Program team that was serving the Department at the time. The project also expended \$25,740 on unanticipated change orders since the March 25<sup>th</sup>, 2021, Commission meeting. The total of these three cost shortages or overages is \$154,000. The implementation date delay is related to the extended time it took the Lottery to perform the proof-of-concept phase of the project and estimate the complexity, time frames for user acceptance testing. As the project proof-of-concept phase is now complete, and the Lottery begins user acceptance testing, the additional contract funds will cover the following: It'll provide a ten percent project contingency of \$154,000 to cover the calculation error of \$33,534 from the March 25<sup>th</sup>, 2021 amendment request, the additional labor charge change orders of \$25,740, any additional unanticipated project budget increases for the remainder of the project and the contract term through December 23, 2023. It will also pay for six months of Epicor services with the extension of go-live to March 2022, costs for post-go-live stabilization services, and to factor in additional costs if unanticipated delays

cause the go-live to extend to April. As far as the corrective action for the budget miscalculation, the Lottery has taken corrective measures to prevent future miscalculations from occurring by ensuring better communication with the vendor and enhanced internal practices. These steps better align Lottery's project budgeting and cost-management activities with industry standard project management practices. As far as the new go-live date, the effort to update our app counting system is not something that the Lottery has encountered, since the current system was implemented in 1999. In 2013 we had an upgrade, but it was only a small portion of the functionality. Our business requirements consist of a lot of customization and somewhat of a uniqueness because we require doing (inaudible) with other State agencies or external vendors. Since the previous amendment request to add contract funds on March 25<sup>th</sup>, 2021, Lottery stakeholders and Epicor consultants have continued to work hard to complete the proof-of-concept phase. However, the amount of time to fully redesign Epicor 7.4 legacy processes into multiple Epicor 10 applications was underestimated. These estimates were made in good faith by the project team, but during proof-of-concept validation, it was discovered that the project requires additional time to meet Lottery business requirements. To ensure the Lottery can

successfully implement the enhanced E 10 Financial Accounting System, the project go-live dates should be extended. This request to amend the contract for \$1,184,320 will allow the Lottery to cover costs associated with the new schedule and ensure a contingency should additional delays be encountered. The amendment will also allow the Lottery to cover costs associated with the calculating error from the prior amendment and the labor overages resulting from project change orders. So, the recommendation is that the Lottery staff recommends that the California State Lottery Commission approve an amendment to the contract for \$1,184,320 to cover costs associated with the prior amendment calculation error, change-order labor costs, and maintenance support for the six-month extension to March 2022 for a go-live date of E 10 implementation. Should additional delays occur, and the go-live date be extended to April 2022, the Lottery will utilize the budget contingency to cover additional costs. This will increase the total contract amount to \$6,414,320. That's the end of my presentation, and I can take on any questions you may have.

**CHAIR AHERN:** All right, do any of the Commissioners have any questions or comments regarding Action Item 8e?

**COMMISSIONER MILLS:** Chair Ahern, I do.

**COMMISSIONER KIRTMAN:** Sheriff, I -- oh. Go

ahead.

**CHAIR AHERN:** Okay, we'll start with Commissioner Mills.

**COMMISSIONER MILLS:** Thank you, Chair Ahern. So, a comment and then a question. So, Vince, thank you for the presentation, and I just want to start by saying I really appreciate the thoroughness of the presentation and the transparency around the information that was shared. It sounds like it's been a really challenging project and a significant investment by the Lottery in this system, and there have been a lot of lessons learned, and so I appreciate the transparency around that. My question is around, as you guys are learning these valuable lessons along the way, are there opportunities to enhance and kind of codify some additional, maybe, processes or procedures or policies where we might be able to take some of these lessons learned and codify more standardized processes that might apply across the organization? Because undoubtedly, technology is here to stay, and this won't be the last technology transition or conversion that we have, and so I'm just curious how you guys are thinking about taking what you've learned through this project and being able to codify it and apply it into the future and really across the organization?

**MR. ESPINOSA:** It's a great question; thank you

very much. Yes, definitely after -- when I took over the Project Management group in January, one of the things I saw right off the bat is we need to do "lessons learned" after a project's close-out, just like we'll do with this one, and we'll talk among ourselves and look at where we're deficient in certain practices. One thing that we do -- case in point -- from my experience with an accounting system, when you go to do an accounting system, you want to make sure you do a lot of pre-planning and feasibility studies, kind of look at all the nuances, the different components, the different impacts, and make sure that all parties are involved, aware, and understand what it is, you know, what's the WIIFM, what's in it for them? And then also try to make sure that we are really doing the due diligence on looking at what are we opening up here, and how do we transform this to where we want to be, so that as is, to be, prior to any project implementation can get going and really get a voice and a representative from all the subject-matter experts, and then the internal processes. Sometimes folks -- there's not some standard of practice, and we identify that, and then we stand that up. Example was with this procurement piece that we had to -- we had a shortage in the last March meeting, and I found that, okay, I could see what was happening. We had a vendor-reliant component; we had an internal component, and then the project component, so we got on

board with ourselves and built that process a little more -- stronger, put reliability on the -- our requirements on our project managers to ensure that those communications and touchpoints are happening throughout the life of the project so we can be more accountable and up to speed on exactly what -- I'm hoping that makes sense and answers your question.

**COMMISSIONER MILLS:** Yes, thank you.

**MR. ESPINOSA:** You're welcome.

**CHAIR AHERN:** All right, Nate, you had a question?

**COMMISSIONER KIRTMAN:** I did. I was curious about the customization that's happening within the software, and I'm curious if the software company that we're using is -- if you think it's a possibility that any of those customization efforts wind up as a part of their overall software releases for other agencies or companies that they're in business with? And the reason why I ask is because I am curious if we wind up paying to help their software be better for other clients?

**MR. ESPINOSA:** Great question. If you're an advocate for their product, and you're out there selling it, I would definitely say, look, we customized for them, and they probably have the same interactions for your department as the Lottery does, so we could probably meet those

requirements. Ours is a little different because we have specific winners that we're dealing with, but overall, the accounting piece is still in there and embedded. I can't answer whether or not they do, but I could see that happening. I hope that that makes sense. I know that there are other accounting systems that I've dealt with, they do the same, but they do a lot of in-house creation, whereas this Epicor product is more of a COTS system, and then they customize outside of that COTS system whatever requirements we have and need for our day-to-day business. Does that answer you?

**CHAIR AHERN:** I think you're saying, yes it does.

**COMMISSIONER KIRTMAN:** Yes. Thank you.

**MR. ESPINOSA:** Thank you.

**CHAIR AHERN:** And, you know, it's wise on their part to keep advancing, and maybe we also get the advantage of their work with other entities, and we benefit from that scope of their work as well, so it could work both ways. Are there any other questions regarding Action Item 8e?

**COMMISSIONER STERN:** I do have one more question on topic. So looking at that we've been through the proof-of-concept phase, and we're moving to acceptance testing, which leads me to believe we have a good handle on the business process, which has been architected, is that a fair assessment, and now it's just any sort of minor

modifications around the acceptance testing that might need to be configured, et cetera, but it's not going to be a -- we're not going to come back and find another major overhaul of -- we missed some mark on our business process?

**MR. ESPINOSA:** I feel more comfortable today saying I don't think we're going to have anything unless it's blindsiding us completely, and we didn't think about it or see it in this scope. Before we kick off user acceptance testing, we're going to have an end-to-end execution, which they're orchestrating and getting ready now, and that'll give us more insight. I think that for the most part, I think I feel more comfortable today with what we've gone through because the business has been engaged to really reflect on what they've seen from the vendor and the product, and they can align themselves for expectations. Like, okay, I used to see the data this way; now I'm seeing it this way, and I interacted with it this way. So, there's more of a clear concept of what's going on, and I thought that was beneficial and a very good milestone to put these dates on. Initially, we tried to push to January, then February, and just given the other criteria that's involved, we just felt March is the best date to go forward with.

**COMMISSIONER STERN:** Okay, thank you, and then we haven't really touched on the notion of training and enablement of the team. We've talked about acceptance

testing, and we have a go-live, so, and I appreciate the complexity of rolling out a financial system, and I know it's a massive undertaking, which leads me to that notion of training and enablement. So, this budget will include the training and enablement of the staff to make sure we're equipped when we go live?

**MR. ESPINOSA:** It does have the components for training and the strategies for converting the database over and the implementation of the training of staff and making sure their awareness and acceptance is there. As far as the depth of what the procedures or anything like that look like, I couldn't -- you know, I don't want to speak to that or misspeak, but I definitely know that there is a training component involved in this.

**COMMISSIONER STERN:** I would definitely emphasize spending time on that. Any time you roll out a new system of records, then you want to make sure that day one at go-live everyone knows their marching orders, which I'm sure you've thought through, just wanted to re-emphasize that point.

**MR. ESPINOSA:** I would agree, and I think that Finance is pretty well documented on their procedures currently. I know that they'd probably have to tweak some based on the new system, but they are probably well established, I would say. I don't like to speak for the

divisions, but from my understanding, they're, you know, that Accounting -- Accounting is a very rigid discipline, and they need to know how things get executed, because if they don't, we have bad checks or bad bills go out, and we don't want, you know, we can't tolerate one of them because that's one too many, so.

**COMMISSIONER STERN:** Thank you. No further questions.

**CHAIR AHERN:** All right. Any other Commissioner questions? For formalities, we'll move on to the public. Does any member of the public want to address the Commission at this time regarding Action Item 8e? Hearing none, do I hear a motion to approve Action Item 8e, Amendment to the Epicor 10 Financial System Contract?

**COMMISSIONER MILLS:** Move to approve.

**COMMISSIONER STERN:** Second.

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

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right, Action Item 8e passes. We'll move on to Action Item 8f, Lottery Investment Policy and Investment Strategy.

**MR. ESPINOSA:** Thank you, Chair.

**CHAIR AHERN:** Move on to Nick.

**MR. BUCHEN:** All right, thank you, Mr. Chair, Commissioners. So, the Lottery's Investment Policy and Investment Strategy ensures sufficient cashflow to make scheduled payments to certain Lottery prizewinners. These recurring payments are for our jackpot winners who choose the annuity payout option as opposed to a lump-sum cash payment in SuperLotto Plus, Mega Millions, and Powerball, and for the top prizewinners in Scratchers games that offer an annuity payout option. The Lottery's Investment Policy requires both our Investment Strategy and Policy to be reviewed and approved by the Commission annually. I'll start with our Investment Policy, since this provides the framework for the specific strategy that we utilize. Our Investment Policy lays out the requirements of our Investment Program, which revolve around timeliness of payments to Lottery annuity prizewinners and safety of principal. This policy includes permitted investment categories and places limits on certain securities to promote diversification and to reduce risk. The Investment Policy also includes requirements pertaining to changes in

credit ratings, as well reinvestment of securities within our portfolio in certain situations. The Lottery's Investment Policy requires our review annually to ensure that its guidelines remain consistent with current principles and standards for the investment of funds managed by a public entity. In addition, we review all investments within the Lottery's portfolio to verify that each continues to be in compliance with the provisions of the Investment Policy. I am certifying today that we have reviewed and verified all elements of our Investment Policy for this year, and we are recommending no changes to the Investment Policy. The second part of this agenda item is the Lottery's Investment Strategy, which focuses on two main areas of activity and maintenance. The investment activity ensures sufficient cashflow to make scheduled payments to our top prizewinners who choose the annuity payout option. The other aspect of our strategy is maintenance of our investment portfolio, and this includes ongoing monitoring and mitigation of potential investment risk. Our current Investment Strategy, which has remained unchanged for more than ten years now, is to purchase United States Treasury Bonds for new annuity prizewinners. And we do this because these investments are backed by a repayment pledge from the United States government, which means they are essentially risk-free. Under our Investment Strategy, we time the

maturity of our investments with the scheduled payments of the annuity prizes. Our Investment Strategy continues to focus on keeping our investment portfolio safe and secure, and the primary function of both our Investment Policy and Strategy is to ensure the investments yield only what is needed for the scheduled annuity payments, and that is why we typically acquire such conservative securities. With that said, the Investment Policy allows us to look for opportunities to leverage other investment types with more risk to ultimately provide more funding to Public Education when it clearly makes sense to do so. We recommend the Commission approve without modification the Lottery's Investment Strategy and Policy, and I'd be happy to answer any questions.

**CHAIR AHERN:** All right, any Commissioners have any questions regarding Action Item 8f?

**COMMISSIONER MILLS:** Chair Ahern, I do have a question.

**CHAIR AHERN:** Go ahead.

**COMMISSIONER MILLS:** Just some notes. Hi, Nick, thanks for the presentation. I noticed in the report that we actually incurred an investment loss this year, and I wondered if you could talk a little bit more about that. Is that all unrealized, and is that expected to impact our cashflow requirements when they come due?

**MR. BUCHEN:** So first, the answer to the first part of your question is yes, it is entirely unrealized loss, so it doesn't impact at all the amount that we give to Education. Obviously, it's a result of the changes in the market, and it does not impact the availability of cash to make our payments, so it's just a loss on the books compared to the expected gains, but we still have sufficient cashflow to make the scheduled payments.

**COMMISSIONER MILLS:** Thank you.

**CHAIR AHERN:** All right, are there any other questions from the Commissioners? I have a question. What's the name of the dog that's barking?

**MR. BUCHEN:** That's Xena (phonetic), and she reminded me in the barking that the more complete answer to Commissioner Mills' question is, since we hold to maturity, these are just interim changes in the meantime, so.

**CHAIR AHERN:** Okay, Nick. With that, does any member of the public want to address the Commission regarding Action Item 8f? Hearing none, do we have a motion to approve Action Item 8f, the Lottery Investment Policy and Investment Strategy?

**COMMISSIONER STERN:** Motion to approve 8f.

**CHAIR AHERN:** We have a motion; is there a second?

**COMMISSIONER MILLS:** Second.

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

**MS. TOPETE:** Commissioner Kirtman?

**COMMISSIONER KIRTMAN:** Yes.

**MS. TOPETE:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. TOPETE:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. TOPETE:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right, thank you very much, Nick. Appreciate the time and effort. Item Number 9 is General Discussion. Do any of the Commissioners have anything they'd like to bring up or discuss at this time? Hearing none, we'll move on to Number 10, which is our Scheduling Next Meeting. We have tentatively scheduled a Commission meeting on November 18<sup>th</sup>, 2021, so please look at your schedules. If there are any problems or conflicts, let us know, and we'll try to make adjustments if possible. Item Number 11 is Public Discussion. I didn't have any notice, but we'll ask. Is there any member of the public who wants to address the Commission at this time? Hearing none, with that, Alva, if you don't mind, we'll adjourn.

**DIRECTOR JOHNSON:** Okay, very good, Mr. Chairman and Commissioners. Thank you so much. Appreciate it.

**CHAIR AHERN:** Okay, thanks, everybody, for your

time. Please enjoy the Thursday, and we'll talk to you soon. Take care.

**COMMISSIONER MILLS:** Thanks, everyone.

**COMMISSIONER STERN:** Thank you, and we'll see you.

**MS. TOPETE:** Thank you. (End of Recording)

**(MEETING ADJOURNED)**

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