

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – June 30, 2022

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.

2. Pledge of Allegiance

Chairman Ahern led the Pledge of Allegiance.

3. Roll Call

Chairman Ahern asked Elisa Topete to call the roll. Chairman Ahern stated that this would be Commissioner Kirtman's last Commission meeting, as he is stepping down as Commissioner for the California State Lottery. Chairman Ahern thanked him for his many contributions during his more than ten years of service.

Commission Members Present:

Chairman Gregory Ahern

Commissioner Peter Stern

Commissioner Nathaniel Kirtman, III

Commissioner Keetha Mills

Commissioner Tiffani Alvidrez

California State Lottery staff and presenters:

Alva Johnson, Director

Fernando Aceves, Chief Counsel

Jim Hasegawa, Deputy Director of Business Planning

Nicholas Buchen, Deputy Director of Finance

Sharon Allen, Deputy Director of Sales and Marketing

Sara Sheikholislam, Deputy Director of Internal Audits

Elisa Topete, Assistant to the Commission

Rebecca Estrella, Recording Secretary

4. Election of Chair and Vice Chair of the California State Lottery Commission 2022-2023

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 Keetha Mills nominated Chairman Ahern to remain as Chairman and nominated Commissioner Peter Stern to remain as Vice Chairman. With no other nominations for both positions, Commissioner Ahern was unanimously approved as Chairman and Commissioner Stern was unanimously approved as Vice Chairman.

5. Consider Approval of the Agenda

Chairman Ahern asked if any of the Commissioners wanted to make any changes to the June 30, 2022 proposed agenda. Commissioner Keetha Mills made the motion to approve the agenda and was seconded by Commissioner Nathaniel Kirtman, III. The agenda passed unanimously.

6. Approval of the Minutes

Chairman Ahern asked if there were any additions or corrections to the May 26, 2022, minutes. Commissioner Kirtman made the motion to approve the minutes of the May 26, 2022, Commission Meeting and was seconded by Commissioner Peter Stern. The minutes passed unanimously.

7. Informational Items

a. Director's Comments

Director, Alva Johnson, provided an estimate of \$8.5 billion in Lottery sales through Saturday, June 18th. Although the sales do not reflect the last two weeks of the year, Fiscal Year (FY) 2021-2022 is set to be one of the Lottery's best-selling years to-date. Scratchers[®] distribution sales are over \$6.6 billion, already surpassing the annual goal for this year of \$6.5 billion.

The multi-state games, which include Powerball[®] and Mega Millions[®], have sales over \$900 million combined. These sales are 12% higher than goal. Without a jackpot over \$500 million this year, Mega Millions' sales are expected to remain below goal for this year. However, Powerball has benefited from the additional third draw each week. Its jackpots have rolled to sizeable levels several times this year, resulting in year-to-date sales already \$140 million higher than its total goal for the year. SuperLotto Plus sales are on par with this year's goal. Its sales are slightly less than last fiscal year due to greater competition from Powerball.

Sales for the Daily Games, which include Daily 3, Daily 4, Fantasy 5, and Daily Derby[®], are on par with last fiscal year's sales and pacing just \$10 million below goal. These games had a softer spring than expected this year due to Lottery players redistributing their entertainment dollars to other Lottery games and entertainment options as the pandemic restrictions eased. Hot Spot's[®] sales have exceeded goal all year. With sales just shy of \$390 million through mid-May, this game is on track to finish out the year above goal and hitting a new annual record.

Due to staff's hard work this year, combined with millions of Californians buying Lottery products, it is projected that the estimated contribution to public education will be \$2 billion this year - a first for the California Lottery. Director Johnson also provided Lottery highlights and accomplishments from FY 2021-22. Lastly, Director Johnson read a Lottery-prepared resolution honoring Commissioner Kirtman.

8. Consent Calendar

9. Action Items

a. Fiscal Year 2022-23 Business Plan

Jim Hasegawa, Deputy Director of Business Planning, requested Commission approval for the Fiscal Year 2022-23 Business Plan that encompasses the objectives and tactical details for the upcoming year that are aligned with the Lottery's strategic direction and needed to support the sales goals in the fiscal year budget.

Commissioner Stern asked if there was a forecast or goal in terms of the total number of distribution channels the Lottery will have from a retail perspective. Mr. Hasegawa stated that in addition to 200 Walmart stores, the Lottery typically grows a few hundred retailers each year, pre-pandemic, which might put growth in the mid-23,000s by the year end. Commissioner Stern asked Mr. Hasegawa to highlight any sort of exciting forthcoming brands that the 53 new Scratchers games might have. Sharon Allen, Deputy Director of Sales and Marketing, stated that the new games are being finalized. However, staff is looking to appeal to both core audiences and casual players with the continuation of Crossword games, as well as Scratch and Sniff and Pumpkin-Spiced Latté games to come out this Fall. The Adams Family-themed Scratchers game will also be introduced and holiday and board game-themed Scratchers.

Commissioner Mills asked for an explanation on how staff will explore new in-line methods of selling tickets. Mr. Hasegawa explained that currently, supermarkets and Walmart stores sell Lottery tickets through a self-service machine that is not in the lane of the cash register. Therefore, it is called a multi-lane retail environment because of the two-step process. At gas stations and convenience stores, a Lottery ticket is purchased by going to the clerk at the register when a customer is checking out after buying other products. Other lotteries across the U.S. are experimenting with this new process and staff are researching to see if it might apply here in California.

Ms. Mills asked if staff was looking at selling Lottery products in airports or movie theaters. Staff is looking into other trade channels but must educate them on the benefits of the Lottery. In some cases, it might require the Lottery to look into the needs of its customers and the retailer in order to modify some of its processes or business models. It would be a very large undertaking, which is why there is not much detail in the business plan. The Lottery would have to have those discussions with those prospective customers and clients. Ms. Mills requested staff to somehow display the direct impact the Lottery has on students and how the funding they receive is impacting their lives in their educational journeys. She also congratulated the Lottery on meeting the important milestone of reaching

the \$2 billion goal for education and hopes the Lottery celebrates this achievement.

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.

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

b. Fiscal Year 2022-23 Budget and Presentation

Nicholas Buchen, Deputy Director of Finance, requested Commission approval for the Fiscal Year 2022-23 Budget. The \$8.54 billion sales goal and approximately \$1.81 billion estimated contribution to education for FY 2022-23 are based on executing a vast array of Business Plan initiatives designed to result in the sustainable growth of future revenues. The proposed budget includes a balanced approach between actions that enable the Lottery to sustain future growth in sales and contributions to public education.

Commissioner Stern asked how long it takes to onboard new retailers to get them to their full potential. Mr. Buchen stated that the onboarding period typically takes a full year before they achieve the full potential, with Lottery staff ensuring that the new retailers are properly being serviced.

Commissioner Mills requested additional information regarding the "Summary of Funding Needs by Objective," particularly the "Personnel" section. Mr. Buchen stated that those expenses are items that the Lottery is investing in to either do something new in the coming year or set the stage for future years. They are the more new, incremental costs compared to the rest of the budget. With respect to the administrative gaming costs, Ms. Mills asked if there was analysis that takes place to make sure that those administrative costs are being optimized, similar to the optimal prize payout studies. Mr. Buchen stated that there is a team that conducts research and looks at other factors. For example, this team will evaluate the value of fancier paper, as that tends to attract the more casual players who want to see the added value for their dollar when purchasing those tickets. Having a healthy mix of those types of games as well as the standard games does lead to increased sales.

Commissioner Mills asked Director Johnson what his process was for reviewing all of the information and the level of his confidence in the certification of the optimal prize payout contained in this budget. Mr. Johnson explained that the Lottery team prepared approximately four different scenarios that look at different ways to meet the revenue and profit goals. Since 77% of the Lottery's revenue comes from Scratchers, the different scenarios looked at a different mix of the Scratchers games and price points, whether it is \$1, \$3, \$30, and staff would adjust with slight variations to clearly indicate that with the current mix that is

being proposed would achieve the most absolute dollars to public education. It comes out in terms of a prize payout optimum to about 67%, which is the high end of the range that the consultant determined was the ideal range. It is also consistent with prior performance of the Lottery's Business Plan and it clearly indicates that this is the best way to generate the most actual hard dollars for schools.

Chairman Ahern stated that the Lottery is requesting 28 positions to provide greater customer service and 17 new positions are needed to make the Lottery's internal processes more robust. He asked if our Human Resources division is having problems recruiting for positions. Mr. Buchen stated that the Lottery has several higher-level classifications that are unique to state service, and that staff is having difficulty recruiting people from the private sector for. Human Resources is using all platforms, including new ones such as LinkedIn.

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.

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

c. Extension and Addition of Funds to the Time Advertising Contract

Sharon Allen, Deputy Director of Sales and Marketing, requested Commission approval for an emergency contract extension for Time Advertising. The current contract is set to expire on November 7, 2022. The Lottery is currently preparing to conduct a formal solicitation to secure a new contract for these services; however, it will not be completed before the contract expiration. The Lottery is requesting an emergency nine-month contract with Time Advertising through August 7, 2023, with an additional \$7.6 million in expenditure authority. This will allow the Lottery to complete a comprehensive and competitive solicitation.

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.

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

d. Draw Auditing and Review Services Contract

Sara Sheikholislam, Deputy Director of Internal Audits, requested Commission approval for the award of the draw auditing services contract to Preston CPA for a term of three years with a maximum agreement amount of \$1,026,000 and two additional one-year options to extend. The contractor will be responsible for timely witnessing all Lottery drawings either at Lottery headquarters or at the off-

site location. The contractor will inspect the draw equipment before and after each draw, certify the draw and submit a draw report to the Lottery.

Commissioner Mills asked what changed in the Request for Proposal (RFP) process to bring interest to this contract. Ms. Sheikholislam stated that she would request that information from the Operations Division and would provide that answer at a later date. Ms. Mills also asked if the workforce from Preston CPA would be located in California, since the company is based out of Georgia. Ms. Sheikholislam stated that a manager would be moving from Georgia to California and would be hiring individuals from Sacramento to serve as the auditors.

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.

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

e. Emergency Extension of the KPMG LLP Draw Auditing and Review Services Contract

Sara Sheikholislam, Deputy Director of Internal Audits, requested Commission approval to exercise emergency extended services for three additional months with KPMG LLP. The extension is required to ensure continuous draw auditing services while the Lottery completes the new contract execution.

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

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

10. Commissioner General Discussion

11. Scheduling Next Meetings

The next Commission Meeting is tentatively scheduled for September 29, 2022. The December date listed on the agenda will need to be moved due to scheduling conflicts.

12. Public Discussion

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

13. Adjournment

Commissioner Kirtman thanked Chairman Ahern, Director Johnson, and various Lottery employees he had worked with during his years of service at the Lottery.

California State Lottery Commission Minutes

June 30, 2022

Page 7

Chairman Ahern closed the meeting in honor of Commissioner Kirtman, followed by a round of applause. Meeting adjourned at 11:34 a.m.