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TRANSCRIPT OF PROCEEDINGS

CALIFORNIA STATE LOTTERY COMMISSION  
COMMISSION MEETING

TIME: 10:01 a.m.  
DATE: Thursday, September 29, 2022  
PLACE: California State Lottery Headquarters  
700 North 10<sup>th</sup> Street  
Sacramento, California 95811

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**California State Lottery Commission**

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Chair of the Commission  
Commissioner

Peter Stern  
Vice Chair of the Commission  
Commissioner

Keetha Mills  
Commissioner

Tiffani Alvidrez  
Commissioner

Anthony Garrison-Engbrecht  
Commissioner

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**Thursday, September 29, 2022**

**Sacramento, California**

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**CHAIR AHERN:** -- call our Commission Meeting to order, and we'd like to start with the Pledge of Allegiance, so if you'd all please stand and join me in saluting our flag?

(The pledge of allegiance was recited)

**CHAIR AHERN:** All righty, thank you. Next, will the Secretary please call the roll?

**MS. ESTRELLA:** Commissioner Stern?

**COMMISSIONER STERN:** Here.

**MS. ESTRELLA:** Commissioner Mills?

**COMMISSIONER MILLS:** Here.

**MS. ESTRELLA:** Commissioner Alvidrez?

**COMMISSIONER ALVIDREZ:** Here.

**MS. ESTRELLA:** Commissioner Garrison-Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Here.

**MS. ESTRELLA:** Chairman Ahern?

**CHAIR AHERN:** Here. All right. We're five for five. I haven't been five for five for a long time. We'd like to welcome our new Commissioner, Anthony Garrison-Engbrecht to the California State Lottery. The Commissioner is the Vice President of Student Life at St. Mary's College in Moraga, one of the finest institutions in the United

States of America. Only the great ones have ever graduated from St. Mary's College. All right. I checked the history. All right. I'm a "C" average, by the way, so don't like to brag.

Number Four, Commissioners, does anyone want to suggest any changes to today's agenda in any respect? Hearing none, do I have a motion to adopt the agenda?

**COMMISSIONER MILLS:** I'll move to adopt the agenda.

**COMMISSIONER STERN:** Second.

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

Will the Secretary please call the roll?

**MS. ESTRELLA:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. ESTRELLA:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. ESTRELLA:** Commissioner Alvidrez?

**COMMISSIONER ALVIDREZ:** Yes.

**MS. ESTRELLA:** Commissioner Garrison-Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Yes.

**MS. ESTRELLA:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right, Item Number Five.

We have the Agenda as Approval of the Minutes? Are there any corrections to the Minutes? Hearing none, do I hear a motion to approve the Minutes of the June 30<sup>th</sup>, 2022,

Commission Meeting?

**COMMISSIONER:** Motion to approve Item Five.

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

**COMMISSIONER MILLS:** Second.

**CHAIR AHERN:** All right, will the Secretary please call the roll?

**MS. ESTRELLA:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. ESTRELLA:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. ESTRELLA:** Commissioner Alvidrez?

**COMMISSIONER ALVIDREZ:** Yes.

**MS. ESTRELLA:** Commissioner Garrison-Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Abstain.

**MS. ESTRELLA:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right. Someone must have coached you up on that abstention. Very well done.

Informational Items: We'll move on to our great Alva Johnson.

**DIRECTOR JOHNSON:** Thank you very much.

Good morning, Mr. Chairman and Commissioners. I'm very pleased to be here today to present our Commission Sales Report for today's meeting. Let's go ahead and start with the first slide. Oh, I'm supposed to do that. Sorry,

long summer. I'm a little rusty. Okay, there we go. All right.

Total Lottery sales through Saturday, September 17<sup>th</sup> are over \$1.8 billion, outperforming the sales goal by nine percent. In the second line of this table is Scratchers Distribution Sales, which is based on ticket distribution to our retailers minus the returns, the same methodology used in our financials. Through mid-September, Scratchers distribution sales total \$1.27 billion. As we expected, a swing in consumer demand for Scratchers has occurred, as the State continues to ease COVID restrictions, and more entertainment options became available for our players.

The Scratchers goal this year, which we presented in our last Commission meeting in June, anticipated this shift. So, despite Scratchers sales through the summer currently trending lower than last year, they are still around the level we expected, coming in at 99 percent of goal. To help boost appeal, trial, and general interest in the Scratchers product line, we have several exciting new games ready for the fall and winter seasons.

We recently launched an Addams Family Fortune Scratchers game based on the iconic pop-culture characters, a fun pumpkin-spice scented game, and a California-themed multiplier game at the \$30 price point. Several other fan



favorites, such as \$20 Instant Prize Crossword and \$3 Tripling Bonus Crossword are slated for launch in the upcoming months as well.

The multi-state game sales surpassed this year's goals and last year's sales as the Mega Millions jackpot rolled to over \$1 billion at the end of July. I have a later slide that will discuss this more, but since the start of the fiscal year, Mega Millions has brought in \$285 million. That's already more than half of the total annual goal for this game this year.

As we have seen in past years, while Mega Millions had the spotlight, the other multi-state game, Powerball, didn't hit quite as high jackpots, resulting in lower sales so far this year. Through mid-September, sales for California's in-state jackpot game, SuperLotto Plus, are just shy of goal and last year's sales. Since our last Commission meeting in June, this SuperLotto Plus jackpot was hit on July 13<sup>th</sup>, and it was worth \$27 million. One lucky winner in Ventura County became a millionaire that night.

The Daily Games, which include Daily 3, Daily 4, Fantasy 5, and Daily Derby, have combined sales of over \$93 million so far, surpassing their goal in last year's sales. Fantasy 5 specifically had a grand prize upwards of \$900,000 at the end of August, something we haven't seen for this game in a year-and-a-half.

Finally, Hot Spot sales through mid-September are over \$84 million. Sales are above goal but trail last year's sales slightly.

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 13 percent ahead of its goal, while contributions to education are 26 percent higher than goal. This is due to a difference in our product profit margins. Our Draw games, including Mega Millions, have a higher profit margin than our Scratchers games.

So far this year, the unexpected but welcomed boost in sales from the high Mega Millions jackpot contributed to greater than expected profit at a faster rate than anticipated in our goals. The estimated contributions to education are over \$350 million, which is also 13 percent higher than the start of last fiscal year.

As noted earlier, jackpot fever hit stores at the end of July as the Mega Millions jackpot rolled to \$1.28 billion before it was hit on July 29<sup>th</sup>. California sales for the entire sequence, which started in mid-April, totaled \$309.7 million. That equates to more than 150 million Mega Millions tickets sold in California. Sales for just the

July 29<sup>th</sup> draw alone were over \$100 million. We estimate over a quarter of California adults purchased a ticket for that Friday's draw. That is more than nine million California adults vying for a chance to win over a billion dollars that night.

While no California Lottery player won the huge jackpot, one lucky person picked five out of six numbers at a Fresno Von's grocery store. Within 24 hours, the store had "Millionaire Made Here" signs up touting the big win. Von's gets a bonus of more than \$21,000 for selling that winning ticket.

As you will see in a few minutes, the Lottery is more than just our products and these billion-dollar jackpots. While the excitement and press grew in July, our Public Affairs and Communications Group made sure to highlight the historic jackpot along with messaging about responsible gaming, how to play, and how schools benefit from Lottery games. Over the course of the entire sequence, over \$42.7 million worth of prizes were won by players in California, and another \$18.3 million went out to retailers in the form of commissions and bonuses. And most importantly, the contribution to education is estimated to be \$123 million.

July also saw the culmination of months of hard work and collaboration among many Lottery divisions,

vendors, and key retail chains, as the new Game Touch touch-screen vending machines began rolling out to retailers. Offering touch-screen convenience makes it easier for players to buy both Draw and Scratchers games. The machines also have an engaging high-impact promotional digital display that attracts attention and cuts through the clutter of crowded retail environments.

The Game Touch installations are scheduled to continue through 2022. Most significantly, the rollout of these new machines involved the much-anticipated expansion to Walmart Supercenters, which began on August 3<sup>rd</sup>. When installations are completed later this year, players will be able to purchase Lottery products in over 200 Supercenters statewide. The Lottery has been successful in Walmart neighborhood markets for years, so we are very excited about adding the supercenters and what that will mean for our mission. During this first rollout of equipment, the Lottery will be conducting a thorough sales analysis and user experience review to ensure the benefits of these new units are optimized.

And that concludes my report for you today. Next, I'm excited to have our Public Affairs and Communications Deputy Director, Carolyn Becker, share how Lottery plans to change the narrative. I also want to thank our Business Planning and Research Group for preparing these remarks and

this analysis for you today. Thanks very much.

**CHAIR AHERN:** All right, thank you, Alva.

**COMMISSIONER STERN:** Just a quick question?

**CHAIR AHERN:** We have a quick question for you.

**COMMISSIONER STERN:** Sorry, just a quick question.

In terms of the touch-screens, what percentage have been rolled out to date? And then I know that it takes some ramp time to get full productivity out of them. Where do we sit as it relates to our forecast on that as well?

**DIRECTOR JOHNSON:** Let me see if someone from Sales can give you the most precise numbers on that? We have Sharon here.

**DEPUTY DIRECTOR ALLEN:** (Ms. Allen is not near a microphone). I think that the latest numbers were about 40 percent to our Walmarts, and I think closer to 50 percent on the (inaudible) Safeway and Albertsons as well. And Walmart is making sure -- projecting to be done with almost all of them except for about 35 stores that are pending Walmarts because of (inaudible) remodels and (inaudible) on that. So we should have that done before the end of the year. I believe (inaudible).

**COMMISSIONER STERN:** Great. Thank you very much.

**DIRECTOR JOHNSON:** Thanks, Sharon. Any other questions? Okay, thank you very much.

**CHAIR AHERN:** Okay. I think we'll go to Item 6b,

Changing the Narrative. Carolyn?

**DEPUTY DIRECTOR BECKER:** Thank you, guys. Good morning, Commissioners. I'm so thrilled to be here this morning to talk to you about the state of Public Affairs and Communications at the Lottery. I'll explain a little bit what we mean when we talk about changing the narrative and really bolstering the narrative that we've been working on over the past few years.

So changing the narrative, bolstering the narrative, that includes addressing myths and misperceptions about the Lottery. That includes our games, our operations, our mission, our money. We do everything we can to make sure that stories in the news media are accurate and that the public understands exactly why we exist and what we're working so hard to do, which of course, is our mission, to raise supplemental funding for public education.

We also want to work hard and ramp back our efforts now that the pandemic is subsiding, to humanize the Lottery, and that means getting out into the field across the State of California to find those stories about where our Lottery dollars are going and really putting human faces on the Lottery. That includes our own internal staff sometimes but also the beneficiaries of funding we raise.

So this morning I'll be talking to you about internal communications and why we think that's so

important; where we're at with messaging and media; how we work with the media in honoring our commitment to transparency; and then at the very end of our presentation today, I'm excited to share with you a video story we recently produced that shares our Lottery dollars in action, that supplemental funding we work so hard to raise.

So beginning with our internal communications, this is something you are all familiar with because I share it with you, but it is a fairly new product from our team. Public Affairs and Communications, often referred to internally as PAC. It's called CLUed (phonetic) In, and you can see there on the slide the C-L-U stands for California Lottery Update. It's a monthly newsletter that goes department-wide to keep people apprised of important policy developments or news from HR. Open enrollment right now is an example. We collect content from across every division. It gives our sales numbers. It's really important for us to empower our entire department to understand the workings of the Lottery, all that's going on. It's mission critical that our staff are part of our operation and understand everything in the vehicle that is our newsletter, CLUed In, because if you think about it, with about a thousand positions in this department, that's potentially a thousand people out in the public talking about their jobs and what we do and importantly, our mission. I'm sure you guys get

this, too, if you ever talk about the Lottery in your regular lives. I know I get peppered with questions when people find out I work here. They usually want to know what the secret sauce is to winning. Of course, we can't do that, but we can certainly spread the infectious enthusiasm and the importance of our mission when it comes to working in such a fun environment like this.

Here's a snapshot. I mentioned it's a monthly newsletter, but we also supplement that newsletter with a video. That's one of our PAC team members, Donna Cordova, who often goes out into the field to share these stories internally with staff. And we're proud to make CLUed In informative and full of information that staff would like to know, but also engaging. We have little tidbits like Lottery Trivia. We want it to be interesting to read and compelling for everybody.

Okay. So another part of what our team works hard on is messaging and media. We are the media team at the Lottery. Oftentimes, we're the face of the Lottery when it comes to the news media, and that is a big part of what the PAC team does.

You heard the Director talk about lotto fever at the end of July. We certainly felt that. I'm proud to say we have bilingual media capabilities here at Lottery. On the left part of the screen there, you see my colleague,



Jorge. He's fluent in Spanish and English, so we're both often called by TV news reporters or print media to talk about our big jackpots when they get as high as we saw Mega Millions in July.

And we're excited to help bolster that excitement, but it's not just, as Alva alluded to, about the jackpots. We took that opportunity to infuse really critical messaging about responsible gaming. I know the Director mentioned that, but with a jackpot like that, of that magnitude, we feel a grave responsibility to make sure people know that we want them to play responsibly, and that includes playing safely and securely.

So we talked with the Sacramento Bee. We were really happy that they printed this story. You see there a quote at the top from me about the resources we dedicate to problem gambling, but you also can see that we were able to infuse messaging about those online ticket sales platforms that are not authorized here in California, and we want our players to know the risks associated with buying tickets online. The only safe and secure way to do it, to play, is to go to one of our 23,000 retailers in person.

Sometimes there's a potentially seemingly negative news article on the horizon, and we don't shy away from those, either. As I mentioned, we're committed to honesty and transparency, and that includes answering questions when

they come our way. You can see here just this month, actually, the Bee ran a story highlighting some of the challenges that we've experienced shipping Scratchers with our primary vendor, Unity. We're well aware of those challenges. They started at the height of the pandemic. We've obviously all seen and felt the impacts of global supply chain issues that's hit the shipping industry. So we worked hard with Unity in the beginning of our relationship about a year ago to overcome many of the challenges, and I was pleased to talk with that reporter for about 45 minutes on the phone and explain how we confront challenges head on and work to overcome them, and I gave them some data that really highlights the progress we've made in the past year.

I'm talking so fast; I'm sorry.

So you can see there on the screen that not only were we able to highlight the progress and how we face these challenges and work hard to overcome them, but the reason we do that always ties back to our mission. We have nothing to hide here. We want people to know that when we experience a challenge, we're doing everything we can to prevent it from affecting our bottom line. And that was kind of the narrative he was wondering about is how has this impacted your sales. You just heard the Director's Report. Our numbers are strong. We don't believe in any way that these challenges have affected those profit margins, those

revenues, in a meaningful way, so we were able to tell that story.

And that leads me to the last part of the presentation, which I'm most excited to share with you, which is the video I mentioned. Our team was recently in Contra Costa County just earlier this month at the Mt. Diablo School District at a middle school, really digging deep into where our dollars are spent. Anybody from the public can go on our website and see how much we raised and even how many dollars go to each district across California, but they can't see how that money is spent. It's largely discretionary, as you know, so it's spent in different ways at different districts, and I'm excited to show you a little bit about how they're spending it at Mt. Diablo.

**(Video plays)**

And with that, that concludes my remarks and comments. I'm happy to answer any questions you may have.

**DIRECTOR JOHNSON:** All right. Well, I'd like to thank you for putting together such a nice video. Well done -- very well done.

**DEPUTY DIRECTOR BECKER:** Thank you, Chair. We're excited to share it today on social media as well.

**DIRECTOR JOHNSON:** Do we have questions or comments?

**COMMISSIONER MILLS:** Yes, more of a comment. Just

I want to echo my appreciation for this. The entire presentation, I thought, was really well done. That video was amazing. I've been asking for this ever since I came on the Commission, and so thank you for bringing this forward. I think it's an important part of our learning to, you know, help us be better Commissioners in our role. So thank you for that. I do have a question about how will you use this video? Like, how do we get this out? How do we get other people to watch it or see it, or parts and pieces of it, to tell the story?

**DEPUTY DIRECTOR BECKER:** In lots of ways. Today was its public debut here at the Commission meeting. We will amplify it today on social media. It lives on our YouTube channel, but we also have a couple of exciting milestones coming up next month. I realize we're approaching the end of this month. The Lottery's anniversary is on Monday, so we'll probably share a little bit more there in addition to World Teacher's Day coming up the first week of October.

But rest assured, this video is the first of many. We actually have feelers out to many school districts across California hoping to bring our video team, our storytelling team, to districts all over and including the university level. I think a lot of people think about young kids and the science lab materials and things like that, but we want

to make sure people understand our money supports K through university and a couple of other institutions as well that have public education. So lots of different ways.

Every now and then, we may work with a local school district on a potential press release to highlight and earn some news media. Primarily, right now, it's on owned media, but we're hoping to infuse the marketplace in the months and years to come.

**COMMISSIONER MILLS:** It's wonderful. It's just really nice to be able to put faces and people with the impact and to tell the story about how we play in that, really, that margin of excellence, right? I loved the comment, we're not replacing, you know, the funding that goes to public education, but we're providing that margin of excellence and going that extra mile, and I think it's so important. The last comment I'll make is that I just really appreciate the transparency with the media stories and how you're really seizing opportunity and the moment to tell the Lottery side of the story and/or get out the important messaging, and even when it's not always good news, that we're owning that --

**DEPUTY DIRECTOR BECKER:** Yes.

**COMMISSIONER MILLS:** -- and being transparent about that and really taking the steps to correct whatever issues or challenges we may be facing. So thank you for

that as well.

**DEPUTY DIRECTOR BECKER:** Thank you, Commissioner.

**CHAIR AHERN:** And we're making other videos, correct?

**DEPUTY DIRECTOR BECKER:** Yes.

**CHAIR AHERN:** Okay.

**DEPUTY DIRECTOR BECKER:** This is the first in what I hope are dozens.

**CHAIR AHERN:** Got it. All right.

**DEPUTY DIRECTOR BECKER:** Thank you guys.

**CHAIR AHERN:** Wonderful. Thank you very much. Two, that moves to our Consent Calendar. There are no items on the Consent Calendar, so we'll proceed to the Action Items. Number 7 is taken care of. Move on to Action Item Number 8. I will start with 8a, Lottery Investment Policy and Investment Strategy with Nick. And he's already up there. Look at the speed.

**DEPUTY DIRECTOR BUCHEN:** Ready. Good morning, Chair, Commissioners.

**CHAIR AHERN:** Good morning.

**DEPUTY DIRECTOR BUCHEN:** The Lottery's Investment Policy and Investment Strategy ensure 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, for 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. Our Investment Policy lays out the requirements of our investment program, which revolve around timeliness of payments to the Lottery's 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 the changes in credit ratings as well as the 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. We review all investments within the Lottery's portfolio to verify that each continues to be in compliance with the provisions of our Investment Policy. I'm certifying today that we've reviewed and verified all elements of our Investment Policy for this year. We made a non-substantive change to replace the Assistant Deputy Director of Finance with the Chief of Financial Reporting and Systems Management throughout the policy to reflect a

recent reorganization of the Finance Division. The Lottery's Investment Policy provides the framework for the particular Investment Strategy that we've utilized, which is the second part of this agenda item.

The Lottery's Investment Strategy focuses on two main areas: activity and maintenance. The investment activity ensures sufficient cashflows to make scheduled payments to our annuity prizewinners who choose the payout option of annuity. The other aspect of our strategy is maintenance of our investment portfolio, which includes ongoing monitoring and mitigation of potential investment risk.

Our current Investment Strategy, which has remained unchanged for the last 11 years, is to purchase United States Treasury Bonds for new annuity prizewinners. We do this because these investments are backed by a full repayment pledge from the United States government, which means they are essentially risk-free. Under our Investment Strategy, we time the maturity of our investment with the scheduled payment of the annuity prizes. Our Investment Strategy continues to focus on keeping our investment portfolio safe and secure. 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. This is why we typically acquire such



conservative securities. 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 education when it clearly makes sense to do so. We recommend that the Commission approve the Lottery's existing Investment Strategy and our Investment Policy. And with that, I'd be happy to answer any questions.

**CHAIR AHERN:** Okay, I was just reading about the interest rates decreasing the bond values. I'm sure that's concerning to you as well?

**DEPUTY DIRECTOR BUCHEN:** Well, from the standpoint that we purchase United States Treasury Bonds, which are already conservative, we do it in a way where there's sufficient money to make the necessary payments, and if by chance one of our securities were to default, and we had to sell off and reinvest, and it wasn't sufficient, there's a reserve in our investment portfolio that we can rely on to make the necessary payments.

**CHAIR AHERN:** Okay. Does any Commissioners have any questions or comments on Action Item 8a?

**COMMISSIONER MILLS:** Chair Ahern, I do have a question. So, Nick, there's a -- I think on Page 7, shows some of the market volatility that we're all seeing, even in our personal investments. And can you talk a little bit about how the market volatility impacts these investments?

It sounds like we hold our investments to maturity, and so what we're seeing here on paper are unrealized market losses that we don't expect to be realized because we will hold to maturity and be able to reap the full value of the item we invested in. Is that --

**DEPUTY DIRECTOR BUCHEN:** Right. That's exactly correct. So we've already recognized the full prize expense so that any changes up or down in the meantime until maturity are just on paper, and, like you said, we hold until maturity, and that (audio malfunction) invest the proceeds to make the necessary (audio malfunction).

**CHAIR AHERN:** It might be the storm from Florida coming in now, right about here.

**COMMISSIONER MILLS:** Sorry, just one follow-up question. So we're not expecting the market volatility to impact our ability to honor any of our payouts?

**DEPUTY DIRECTOR BUCHEN:** That's correct.

**COMMISSIONER MILLS:** Okay, great. Thank you.

**CHAIR AHERN:** Any other questions from the Commissioners? Seeing none, does any member of the public want to address the Commission at this time regarding Action Item 8a? Seeing none, do I hear a motion to approve Action Item 8a, Lottery Investment Policy and Investment Strategy?

**COMMISSIONER MILLS:** Move to approve.

**CHAIR AHERN:** (Audio malfunction) a motion to

approve (Audio malfunction). We're trying to get there.

**COMMISSIONER:** Second.

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

**MS. ESTRELLA:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. ESTRELLA:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. ESTRELLA:** Commissioner Alvidrez?

**COMMISSIONER ALVIDREZ:** Yes.

**MS. ESTRELLA:** Commissioner Garrison-Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Yes.

**MS. ESTRELLA:** Chairman Ahern?

**CHAIR AHERN:** Yes. And Nick, I just remembered, I'm older than all of you. They're playing with our AM/FM radio stations, our transistor radios, yeah? Okay. Okay. Moving on to Action Item 8b, Construction Services Contract, Z Squared Construction, and Tiffany Donohue. Good morning.

**DEPUTY DIRECTOR DONOHUE:** (Audio malfunction).

**CHAIR AHERN:** Good luck.

**DEPUTY DIRECTOR DONOHUE:** Can you hear me now? Good morning.

**CHAIR AHERN:** Good morning.

**DEPUTY DIRECTOR DONOHUE:** Hopefully, we can get through these two items. Well, good morning, Commissioners.

I'm Tiffany Donohue, Deputy Director of the Operations Division, and I am here to present Agenda Item 8b in which the Lottery seeks the Commission's approval of its Construction Services agreement with Z Squared Construction for the renovation of the Northern Distribution Center.

Since this project was approved for funding approximately five years ago, the Lottery has encountered delays to get the project underway, so achieving this milestone that we're bringing before you today is a great accomplishment for the Lottery. In November 2019, I presented to the Commission (audio malfunction) of various facility-related projects, both projects that had been completed and those that the Lottery had planned in the future. One of those projects was the renovation of the Lottery's Northern Distribution Center in West Sacramento. However, due to the pandemic and various staff turnover, the project was slightly delayed again until we were able to go out to bid to seek contractors to perform the work for the project.

The Lottery advertised the project to be an invitation-for-bid in June of 2022 and received bids from seven qualified construction firms. Z Squared Construction met all administrative, technical, and cost requirements of the Lottery and was thereby deemed a responsible and responsive bidder, offering the best value to the Lottery

for the project work.

The project will include elements that directly improve warehouse and distribution capacity; employee health, safety, and comfort; and compliance with building code requirements. These facility improvements will bring the Northern Distribution Center up to the standard of the Lottery's Southern Distribution Center.

Some of the major project work includes relocation and expansion of pick and pack stations for fulfillment of product orders and additional warehouse racking to improve support capabilities for storage and delivery of Scratcher and point-of-sale materials. Replacement of the aging HVAC system to ensure employee health, safety, and comfort; replacement of the roof as it has half its end of life, as well as various other facility and operational improvements.

The Lottery recommends the Commission approve the agreement with Z Squared Construction for a term of October 10<sup>th</sup>, 2022, through October 9<sup>th</sup>, 2025 and an agreement amount of \$5,770,910. The amount of the agreement includes a budget contingency of \$663,910 in anticipation of likely cost escalations for labor, materials, equipment, as well as anticipated increases due to inflation. This contingency is prudent and necessary, as construction costs have increased an average of 13 percent annually over the last few years.

The Lottery will control cost escalations during

the project by utilizing a change-order process, which requires the Lottery contract manager to approve any increases prior to expending those funds. And with that, I can answer any questions.

**CHAIR AHERN:** Okay, Tiffany, thank you. Do any Commissioners have any questions or comments regarding Action Item 8b? Go ahead.

**COMMISSIONER ALVIDREZ:** Just a quick comment. Thank you so much for including the 13 percent in anticipation of supply-chain issues and possible change orders and overages. I think that is incredibly prudent, and I appreciate seeing that in the calculation. Thank you.

**CHAIR AHERN:** Okay. We'll see if that works. All right. Does anybody, any other Commissioners have any questions or comments? All right. Does any member of the public want to address the public at this time regarding Action Item 8b? Seeing none, do I hear a motion to approve Action Item 8b, Construction Services Contract, Z Squared Construction?

**COMMISSIONER ALVIDREZ:** So moved.

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

**COMMISSIONER GARRISON-ENGBRECHT:** Second.

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

**MS. ESTRELLA:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. ESTRELLA:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. ESTRELLA:** Commissioner Alvidrez?

**COMMISSIONER ALVIDREZ:** Yes.

**MS. ESTRELLA:** Commissioner Garrison-Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Yes.

**MS. ESTRELLA:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right. The motion passes. Thank you very much. You're still at bat. We have Action Item 8c, Construction Services Contract for Headquarters Security Fence. I can hear you.

**DEPUTY DIRECTOR DONOHUE:** (Audio malfunction) -- install -- we have sound. I can quit yelling, I guess. A permanent perimeter fence and controlled gating to provide enhanced security by limiting access to portions of the campus. These security measures will provide a safe and secure location for Lottery assets, State vehicles, Lottery staff and employee parking, thus addressing risk of public loitering, vandalism, or other property crimes. This is timely, as the River District, where Lottery Headquarters building is located, is undergoing major development initiatives throughout the area, which will result in increased residential, commercial, and entertainment and

restaurant activity, which then increases public presence in the area.

The Lottery sought a prospective contractor by the release of an invitation for bid on July 15<sup>th</sup> of 2022. The Lottery received four responsive and responsible bids and determined that Arctos, Incorporated offered the best value to the Lottery for the project. Additionally, Arctos, Incorporated is well regarded among government entities, as they have done many security-enhancement projects for those organizations.

The Lottery's project requires the installation of an eight-foot-high steel fence around the campus perimeter, vehicle and pedestrian gates with controlled access points, while allowing open access for Lottery staff and customers during regular business hours. This project will also be completed under current ADA requirements.

The Lottery is recommending the Commission approve the agreement with Arctos, Incorporated with a term of October 10<sup>th</sup>, 2022, through October 9<sup>th</sup> of 2023 in an agreement amount of \$609,290. The amount of the agreement includes a contingency of \$69,290 in anticipation of likely cost escalations during the project work. These cost escalations are tied to similar circumstances that I described in the previous item tied to construction costs and inflation impacts.



The Lottery will also utilize a change-order process to control cost escalations during this project, which requires the Lottery Contract Manager to approve any of those increases prior to expenditure of funds. With that, I can answer any questions you may have on that item.

**CHAIR AHERN:** Yes, I have one question I forgot to ask during the briefing. We have a year to put up the fence, from October 10<sup>th</sup> to the following year, 2023, and then there are two one-year options, such as the safety protocol in case there are issues where they can't do the construction, or?

**DEPUTY DIRECTOR DONOHUE:** Correct. So that's another area where the Lottery tries to be proactive in its planning and building in amendment flexibility to the contract, and that is incredibly important for this type of work because for some construction work, we're finding that even securing a specific system or equipment can be months and months out, and so we need to be able to allow for that. And so if we do find ourselves in that situation, then we would have to extend the contract to be able to complete the work under the same bid cost that we received.

**CHAIR AHERN:** Okay, thank you very much. All right, do any Commissioners have any questions regarding Action Item 8c? Seeing none, does any member of the public want to address the Commission at this time regarding Action

Item 8c? Seeing and hearing none, do I hear a motion to approve Action Item 8c, Construction Services Contract for Headquarters Security Fence?

**COMMISSIONER STERN:** Motion to approve.

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

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

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

Will the Secretary please call the roll?

**MS. ESTRELLA:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. ESTRELLA:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. ESTRELLA:** Commissioner Alvidrez?

**COMMISSIONER ALVIDREZ:** Yes.

**MS. ESTRELLA:** Commissioner Garrison-Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Yes.

**MS. ESTRELLA:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right, thank you very much.

**DEPUTY DIRECTOR DONOHUE:** Thank you.

**CHAIR AHERN:** Moving on to Action Item 8d. The speed of Jim running up to the mic, ready to go -- Advertising Tracking Services Contract Amendment.

**DEPUTY DIRECTOR HASEGAWA:** All right. Today

we're recommending approval for an amendment to an existing contract for conducting Advertising Tracking Research with Ipsos. Through a competitive procurement process back in 2018, the Commission awarded a three-year contract to Ipsos that contained two one-year options to extend the term of the contract. A year ago, the Commission approved the first one-year extension.

Ipsos is a global market research and public opinion firm. They're one of the largest providers of advertising research in the world. They also conduct a lot of research in the gaming and lottery industries, serving more than half of the lottery jurisdictions in North America.

The studies performed by Ipsos under this contract are one of the ways that we measure the effectiveness of our advertising efforts. These studies inform the Lottery about how well consumers recall the advertising and if that level is above, at, or below the average. And because Ipsos conducts thousands of these types of studies, it has benchmarks for what ads typically score, and that way we can get these numbers and kind of be able to calibrate how well we're doing.

The Lottery also learns from these studies how well consumers link the ads to the Lottery or to the specific product being advertised; what key messages are

actually retained by the consumers; and we learn about the ad's persuasiveness; in other words, the campaign's impact on game awareness, intention to play, and changing perceptions. And with this research, it allows our Marketing group, working with our ad agencies, to make decisions on future advertising.

So what is this amendment for? Well, there are three parts to it. One is to exercise the one-year option to extend that's included in the contract, and this is the last remaining extension option; two, to add \$220,000 to the contract expenditure authority, bringing the total to \$604,000; and three, add additional pricing options into the contract for more advanced research services as part of this study. I'll discuss a few details in each of those areas.

So the reasons why we're recommending a one-year extension versus going out to a new RFP is, one, Ipsos has done a superior job over the past four years and provided excellent service, but by extending, we can lock in the pricing that they submitted back in 2018. Since that time, with the pandemic and recent inflation, we have seen the costs of other research projects increase by about 15 percent. And as such, if we exercise this extension and keep the 2018 pricing, we anticipate saving about 15 percent.

In terms of the additional \$220,000 adding to the

contract expenditure authority, the original contract expenditure authority had a maximum of \$384,000. Now, during the spring and summer of 2020, the Lottery eliminated and suspended most of its advertising campaign during those months due to the COVID-19 pandemic. As such, when the one-year extension was being requested a year ago, staff did not need to add any money to the contract.

The original contract value was based on conducting just four ad trackers per year, and with the Scratchers Brand Campaign now in place, with more frequent advertising flights, we anticipate conducting seven advertising tracking studies during this last year of the contract, and that's why \$220,000 is needed to be added to the contract expenditure authority. And with that, I can answer any questions at this time.

**CHAIR AHERN:** Okay. Do any Commissioners have any questions or comments regarding Action Item 8d?

**COMMISSIONER STERN:** Just a comment. You've offered this up before, but could we see the Report of Findings based on the analysis?

**DEPUTY DIRECTOR HASEGAWA:** Yes, we can provide that under separate cover, yes.

**COMMISSIONER STERN:** Okay.

**DEPUTY DIRECTOR HASEGAWA:** You can see the most recent one that we did with the Ad Trackers, and it's the

most recent one because the Scratchers Campaign has been having different ways. It kind of shows it over time and then how the metrics have changed, if at all.

**COMMISSIONER STERN:** Thank you.

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

**CHAIR AHERN:** Go ahead.

**COMMISSIONER MILLS:** Thank you, Jim, for the presentation. I have two questions. You mentioned that the economics of the contract, that we're able to maintain the pricing that was negotiated in 2018. Do we have any concerns about the vendor's ability to actually honor that and to execute their side of the contract?

**DEPUTY DIRECTOR HASEGAWA:** No, we have no questions about that. It has been discussed with them.

**COMMISSIONER MILLS:** Okay, great, thank you. And then this is a one-year extension. It sounds like it's the last --

**DEPUTY DIRECTOR HASEGAWA:** Yes.

**COMMISSIONER MILLS:** -- extension. Is this one that we will need to go to out RFP, and when will that process begin?

**DEPUTY DIRECTOR HASEGAWA:** Yes, literally, next month we start the process working with Tiffany's team in Procurement Services because it does take, to develop the

RFP, to put it out there, to evaluate all the vendors and the bids, it takes about a year, so we'll be starting that effort literally come the first of October.

**COMMISSIONER MILLS:** Okay, great. Thank you.

**DEPUTY DIRECTOR HASEGAWA:** Uh-huh.

**CHAIR AHERN:** Any other questions? Okay. Does any member of the public want to address the Commission at this time regarding Action Item 8d? Hearing and seeing none, do we have 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 ALVIDREZ:** Second.

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

**MS. ESTRELLA:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. ESTRELLA:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. ESTRELLA:** Commissioner Alvidrez?

**COMMISSIONER ALVIDREZ:** Yes.

**MS. ESTRELLA:** Commissioner Garrison-Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Yes.

**MS. ESTRELLA:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right. All right, Jim, well done, thank you.

**DEPUTY DIRECTOR HASEGAWA:** Thank you.

**CHAIR AHERN:** It passes. Moving on to Action Item 8e. It's a Sitecore Content Management System Renewal, and Jennifer Chan.

**DEPUTY DIRECTOR CHAN:** Good morning, Commissioners.

**CHAIR AHERN:** Good morning.

**DEPUTY DIRECTOR CHAN:** I am Jennifer Chan, the Chief Information Officer for the Information Technology Services Division at the Lottery.

I have 8e. It is to request to enter into a 24-month agreement to renew the existing subscription licensing and premium-level support for Sitecore Experience Platform, also called SP, which is the Content Management System, or CMS, for the Lottery's public website.

The Lottery established Sitecore as its CMS for the website in 2012, and as such, the CMS is integrated into our website, and it manages and handles our -- enabling our website content and the automated display of dynamic information. Themes such as winning numbers for Draw Games, the number of prizes remaining for Scratchers games, and it also designated Lottery staff to publish non-automated content, such as information on products and our Lottery's



mission and our business goals.

The CMS is critical to facilitating the display of accurate information to the public and our various stakeholders, and in 2018, and in order to meet Assembly Bill 434 requirements for full-accessibility compliance, the Lottery purchased Sitecore SP for enhanced functionality to support the upgrade of the website, and at the same time, the website's infrastructure was also enhanced. The actual upgrade was implemented in 2019.

The Lottery's public website is a critical and essential part of the Lottery's business. Sitecore SP provides a comprehensive suite of features to help the Lottery manage its website content, and it also provides a robust foundation to support the Lottery's digital identity, our strategy, and engagement. In addition to content on the website, information displayed on the Lottery's mobile applications, as well as winning numbers provided by the Lottery's interactive voice response system, or IVR system, are dependent upon the integration of Sitecore and the website.

If the Sitecore SP agreement is not renewed, the Lottery's website and mobile applications will be unable to display critical information and dynamic content, rendering the website essentially inoperable. Additionally, without the agreement, the Lottery will not receive upgrades, have

24 by 7 premier support, or have access to the Sitecore online support portal. Therefore, Lottery staff recommend the Commission approve the renewal of the subscription licensing and premium-level support for the Sitecore SP, the CMS for our public website.

The total contract amount is anticipated to not exceed \$520,694, with a term date beginning December 11<sup>th</sup> of 2022 and ending December 10<sup>th</sup> of 2024, and I'm happy to answer any questions you may have.

**CHAIR AHERN:** All right, Jennifer, thank you. Does any of the Commissioners have any questions or comments regarding Action Item 8e? Go ahead.

**COMMISSIONER GARRISON-ENGBRECHT:** It's not a question. I just want to thank you again for adjusting vulnerabilities. I think that when we are able to (inaudible) to adjust what would happen if we didn't approve them, it's really helpful to understand what its liabilities might be, so thank you for that.

**DEPUTY DIRECTOR CHAN:** Thank you.

**CHAIR AHERN:** Okay. Does any member of the public want to address the Commission at this time regarding Action Item 8e? Seeing and hearing none, do we have a motion to approve Action Item 8e, Sitecore Content Management System Renewal?

**COMMISSIONER GARRISON-ENGBRECHT:** Motion to

approve.

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

**COMMISSIONER ALVIDREZ:** Second.

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

**MS. ESTRELLA:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. ESTRELLA:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. ESTRELLA:** Commissioner Alvidrez?

**COMMISSIONER ALVIDREZ:** Yes.

**MS. ESTRELLA:** Commissioner Garrison-Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Yes.

**MS. ESTRELLA:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right, Jennifer, the motion passes.

**DEPUTY DIRECTOR CHAN:** Thank you.

**CHAIR AHERN:** Thank you very much. Moving on to Action Item 8f. That's a Request to Add Positions, adding for the second time today, Nick.

**DEPUTY DIRECTOR BUCHEN:** Back. So this request is to add a total of 11 new permanent positions to the Lottery. Nine of the 11 positions are in the Information Technology Services Division (ITSD).

Six of these positions are needed to address maintenance and operation gaps to enable ITSD to proactively retire redundant and unnecessary systems; consolidate applications; address end-of-life and legacy hardware; software, and systems; invest in Cloud technology, and address security risks and vulnerabilities. This will enable the team to focus on building a foundation that will support innovative technology to meet the future business needs.

Three of the nine new positions for ITSD are needed to establish a new Field Support services function to be more proactive and have greater visibility and availability to better serve the Lottery's remote offices throughout the State.

All nine positions will support the Lottery's mission-critical systems and will further ITSD's efforts to transform and modernize (audio malfunction) --

**CHAIR AHERN:** Can't blame you this time though.

**DEPUTY DIRECTOR BUCHEN:** -- transform and modernize operations; provide greater customer (audio malfunction).

One of the 11 new positions is needed in the Human Resources Division to develop, implement, and maintain the Lottery's Employee Engagement and Mission, Vision, and Values Initiative (audio malfunction) -- other Lottery

employees from stepping in when there are coverage issues.

To ensure uninterrupted service for these route model retailers when there are vacancies, illness, vacations, or other extended leaves, the Lottery utilizes permanent, intermittent positions. This request is for one additional permanent intermittent position to operate out of the Santa Fe Springs District, which is centrally located in the Greater Los Angeles Region and to the highest volume sales area.

In total, the 11 requested new positions (audio malfunction) reference 11 positions rather than ten. The costing in the memo correctly reflects for all 11 positions. We recommend that the Commission approve the requested nine positions for ITSD, one position for Human Resources, and one position for Sales and Marketing, and I'm glad to answer any questions you may have.

**CHAIR AHERN:** Okay. Do any Commissioners have any questions or comments regarding Action Item 8f?

**COMMISSIONER MILLS:** I do have a question. Thank you, Nick, for the presentation. These are not included in the current budget. Is that right?

**DEPUTY DIRECTOR BUCHEN:** Correct.

**COMMISSIONER MILLS:** And we pretty recently approved a budget. Can you talk a little bit about how these came about and maybe why they weren't included in the

budget we recently passed?

**DEPUTY DIRECTOR BUCHEN:** Sure. So more than half of the 11 was actually an oversight. They were presented in time to include in the June budget, and it was an oversight that they were not included. The others, obviously as the - - efforts go on throughout the year, there is a realization that we can't do it within existing resources, so at the time the budget was developed, these were not yet known. So it's a mix of something that could have been included, and you're right; there were 45 new positions included in the budget, so there could have been a total of 51 included, and then five more today.

**COMMISSIONER MILLS:** Great. Okay, thank you. (Audio malfunction) should around managing the mission, vision, and values project, and I think that's a really prudent investment. You know, work culture is super-important. My question is around -- and this may be a question for Director Johnson but I'm not sure. But my question is around how that position will interact with Executive Management because I really see culture -- of course, HR has a very important role in org culture and execution. I really see org culture owned at the Executive Management, and so how will this position interact and work with Executive Management on this project?

**DIRECTOR JOHNSON:** Thanks for the question. A

couple years ago, we realized that we needed to do some work to improve relations among the employees and management and also have the entire workforce focused on the mission of the Lottery in a coordinated and collaborative fashion and better than had been done before.

So many organizations engage in something similar to Mission, Vision, Values. It was a working title, but it kind of stuck for us, and we had allocated, parceled out the work among a couple of different executive leaders on the team, but we found with the onset of the pandemic and related issues -- you know, the difficulty in filling key positions, related follow-on effects from supply-chain issues -- our management team has been pretty stressed, and so we weren't able to make the progress on the program that we wanted to see in the first couple years. And that's why we decided to have a position specifically dedicated for this purpose, to allow us to hit our milestones and benchmarks in a more efficient and timely fashion.

This particular position will be in the Human Resources Division, but they'll report up through that chain of command there, including the Assistant Deputy Director and the Deputy Director of HR. The HR leadership meets regularly with the Director, myself and the Chief Deputy Director, not only in our weekly team management meetings -- we call them the Executive Management Team -- but also in

the regular meetings every month, and my expectation will be that there will be regular updates on progress and developments and our overall success or whatever we are doing in meeting our goals for the program. So we intend to incorporate the function within our existing management structure, in which there's regular communication, not just vertically but horizontally with our management team.

**COMMISSIONER MILLS:** Great. Thank you.

**CHAIR AHERN:** Anthony?

**COMMISSIONER GARRISON-ENGBRECHT:** Thank you, Nick. I have one question about the 804 for the remaining Fiscal Year 2022-23. Is that number calculated on hiring ASAP?

**DEPUTY DIRECTOR BUCHEN:** Yes, but the State hiring process takes a while so that factors in the time to post the job, conduct the interviews, go through the eligibility screening, and all that.

**CHAIR AHERN:** Okay. Does any member of the public want to address the Commission at this time regarding Action Item 8f? Seeing and hearing none, do I have a motion to approve Action Item 8f, Request to Add Positions?

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

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

**COMMISSIONER GARRISON-ENGBRECHT:** Second.



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

**MS. ESTRELLA:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. ESTRELLA:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. ESTRELLA:** Commissioner Alvidrez?

**COMMISSIONER ALVIDREZ:** (Inaudible)

**MS. ESTRELLA:** Commissioner Garrison-Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Yes.

**MS. ESTRELLA:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right, Nick. The motion passes.

**DEPUTY DIRECTOR BUCHEN:** Thank you.

**CHAIR AHERN:** Thank you very much. And for the people in the audience and anyone listening, our IT people were out here early this morning testing this equipment. Everything was working perfectly. They were working on the volume, so appreciate their efforts, at least. Moving on to Sharon Allen and Action Item 8g, Scratchers Core Game Profile Templates.

**DEPUTY DIRECTOR ALLEN:** All right. Good morning. Before I start the item, I wanted to just provide update information on Commissioner Stern's question about the touch-screen machines. This just in just to clarify.

On the Game Touch 28s, it's the larger machines. We're doing it in three waves. They're coming in from China, and there's been some supply-chain issues. So with that first wave of 500, we're almost complete, about 85 percent, and we should have all installed by the first quarter of next year.

**COMMISSIONER STERN:** Thank you very much.

**DEPUTY DIRECTOR ALLEN:** All right. Had to get the facts out there.

**COMMISSIONER STERN:** Mission accomplished.

**DEPUTY DIRECTOR ALLEN:** All right. So now on to Item 8g, and this is an item requesting approval of new Scratchers core game profile templates.

The Lottery utilizes core game profile templates in the creation of Scratchers games. These templates define the overall financial structure for each Scratchers game, including such information as potential revenue, prize tiers, odds, and prize payouts. Per Lottery regulations, Core Templates require Commission approval.

As part of its ongoing game development, the Lottery continues to assess and review its difference price structures. As part of this review, the Lottery identified an opportunity to update the existing price structures and templates within the \$1.00 category to provide greater variety that will help drive interest in playership.

Across the Lottery industry, the lower price point category of \$1.00 and \$2.00 games has shown a steady and continuous decline over the past ten years, as players continue to shift their purchases towards higher price-point games. However, these games remain an important component of many Lottery's game portfolios because they provide a higher profit margin and offer an affordable entry point for new players. Similarly, in California, research confirms that these games remain a relevant and significant price point for our players, even if their purchases continue to shift towards higher price points. While the games do not generate sales volume as higher price points, they remain an integral component in balancing profitability within the portfolio.

The Lottery is requesting approval of 16 \$1.00 Scratchers core templates, with each template offering varying prize structures. For example, a certain number of small prizes on one template, while another template might have ten different types of prize levels. Additionally, there are different price structures for different types of game styles, such as for Crossword or Bingo. The Lottery staff recommends that Commission approve these 16 new core Scratchers templates. And with that, I'd be happy to answer any questions.

**CHAIR AHERN:** I have one question. I'm sorry I

didn't ask you during the briefing. Who sets the payout percentages. Is it by law, by our Lottery policy, or by our gaming people who guide us?

**DEPUTY DIRECTOR ALLEN:** We have a policy overall for the portfolio to hit the optimal prize payout, and that's within that range that we recently updated, working with a vendor, to help us determine the third party, that optimal range. So we look at the total portfolio, balancing both Draw and Scratchers, and then the different price points within Scratchers and the Draw Games. So it's set through the policy that gets developed with Business Planning Sales and Marketing and Finance and approved through --

**CHAIR AHERN:** So there's a tight margin where we can adjust it.

**DEPUTY DIRECTOR ALLEN:** The range specifically.

**CHAIR AHERN:** Okay.

**DEPUTY DIRECTOR ALLEN:** And then each game has its own, but we look at it holistically to get into that range. So as we heard earlier about the Mega Millions Jackpot, its profit margin is much higher than a different - - than a Scratchers game, for example, because they provide different experiences. So we have to look at it holistically, and that's where the different price points come into play.

**CHAIR AHERN:** All right, thank you. Does any commissioners have any questions or comments regarding Action Item 8g?

**COMMISSIONER MILLS:** I do have a couple of questions.

**CHAIR AHERN:** All right

**COMMISSIONER MILLS:** Hi, Sharon.

**DEPUTY DIRECTOR ALLEN:** Hi.

**COMMISSIONER MILLS:** Thank you for the presentation. So in this item we're being asked to approve changes to only the \$1.00 Scratchers core templates. Were all templates reviewed as part of this process, or just the --

**DEPUTY DIRECTOR ALLEN:** It's been an ongoing to look at -- across all price points, all games, and where we can optimize. The \$1.00 game profiles needed the most overhaul, if you will, the most optimization, and that's why they require Commission approval.

We also have a process if there are minor changes, materially similar changes, the Director signs off on that. And that type of change varies on how big the prize structure is or different things, so it's not like a one-size-fits-all, but since this is a new template, this is materially similar. So for example, if we have ten different prizes in a game, and we change two of them,

that's minor, but if we're making a change upon a change, it becomes more of a fundamental change.

**COMMISSIONER MILLS:** Okay. And who assesses the materiality of the change for what comes to us? Is that something that Director Johnson does, or?

**DEPUTY DIRECTOR ALLEN:** It's a joint effort with Sales and Marketing and the Product Development Team working with Finance and Legal to review that.

**COMMISSIONER MILLS:** Okay, great. Thank you.

**CHAIR AHERN:** Any other questions? All right. Does any member of the public want to address the Commission at this time regarding Action Item 8g? Hearing none and seeing none, is there a motion to approve Action Item 8g, Scratchers (audio malfunction)?

**COMMISSIONER MILLS:** Yes.

**MS. ESTRELLA:** Commissioner Garrison-Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Yes.

**MS. ESTRELLA:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right, Sharon. Item Number -- second item for you, the Ratification of the Silver Star Movers Bulk Delivery Services Contract, Action Item 8h.

**DEPUTY DIRECTOR ALLEN:** All right. The Lottery is requesting ratification of a new contract with Silver Star Movers to provide designated bulk delivery services

between the Southern Distribution Center and the District Offices in Southern California.

The Lottery's Southern Distribution Center needs to ship Scratchers and point-of-sale items to and from the five Southern California District Offices, which support over 12,500 retailers. Shipments are arranged on an as-needed basis with the number of pallets on each shipment varying, depending on sales volume and campaign needs. A contract allows the Lottery to ship in a timelier fashion and ensures the Lottery has a consistent pricing structure.

In May, the Commission awarded a three-year contract for these services to Packtrack, which submitted the lowest bid in the solicitation. However, in July, while the Lottery's Security and Law Enforcement Division was conducting the required background investigation, Packtrack notified the Lottery that they were no longer able to honor their original bid prices. The Lottery subsequently terminated the agreement.

As these services are urgent and mission-critical, the Lottery pursued a new agreement with the next lowest bidder, Silver Star Movers, in accordance with the original solicitation. After SLED completed the background process, the Lottery executed a contract with Silver Star Movers per Lottery regulations, authorizing the execution of a contract and subsequent ratification by the Commission if

circumstances require work to commence prior to the next Commission meeting.

Lottery staff recommends that the Commission ratify the new contract with Silver Star movers for bulk delivery services for a term of three years with options to extend for two one-year terms and a maximum authorized contract expenditure authority of \$422,000. With that, I'd be happy to answer any questions.

**CHAIR AHERN:** Okay. Do any Commissioners have any questions or comments regarding Action Item 8h?

**COMMISSIONER MILLS:** I do have a question.

**CHAIR AHERN:** All right.

**COMMISSIONER MILLS:** Thank you, Sharon, for the presentation. When we're going through, like, the RFP or bid evaluation process, I know price is a key kind of element of what we're evaluating for. But can you also talk about, like, how we evaluate for ability to execute and quality and kind of those sorts of things? It seems like I'm not exactly sure what happened here, but it seems like we picked the lowest price, and then they weren't able to execute? And so I'm just wondering how we -- and I know we can't always catch those sorts of things, but how does our process evaluate for those types of potential issues?

**DEPUTY DIRECTOR ALLEN:** There are different types of solicitations, depending on the services. In this case,



this was an invitation for bid, which is primarily based on certification that they have the capabilities to complete and then based on price. And, Tiffany, do you want to address -- go into a little bit more detail on this one?

**DEPUTY DIRECTOR DONOHUE:** So for invitation for bids, although the award is based on price, there are bid requirements that competitors have to agree to and fulfill in order to be determined responsive.

And so Packtrack, in this case, they did meet those pre-bid requirements, in that they met the financial, the entity requirements that they could do the work, and then, so based on factors like that, we would open the costs, and then they would be awarded the contract based on the cost.

And so in this case, it was a little bit different because they could ultimately fulfill the work except for between the time that they submitted the bid and we moved to start acquiring the services, they had encountered a lot of issues with their fleet and their vehicles. They had vehicles break down, and they weren't able to source the new vehicles that they were waiting for. So that put the work that Sharon's team was trying to acquire in jeopardy. And so actually, we appreciated Packtrack acknowledging that early on so that we could pivot to the second-lowest bidder while that invitation for bid was still in play.

**COMMISSIONER MILLS:** That's super-helpful. Thank you.

**DEPUTY DIRECTOR DONOHUE:** Okay.

**COMMISSIONER MILLS:** And Sharon, can you just confirm that the -- so this contract was executed --

**DEPUTY DIRECTOR ALLEN:** Yes.

**COMMISSIONER MILLS:** -- we needed the service, and Silver Star Movers is executing on the contract in a reasonable manner?

**DEPUTY DIRECTOR ALLEN:** So far, so good. So it's just relatively new, but they were able to deliver in the timely manner and delivering as we expect, and we'll continue to monitor and ensure that their performance is what we need them to do.

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

**CHAIR AHERN:** Anthony?

**COMMISSIONER GARRISON-ENGBRECHT:** Thank you. I'm sorry.

**COMMISSIONER ALVIDREZ:** Oh, no. I'll (inaudible) after you.

**COMMISSIONER GARRISON-ENGBRECHT:** I have a quick question based on the recommendation, and it might be -- just to confirm, we're currently in a three-year contract for the terms of 2022 to 2020?

**DEPUTY DIRECTOR ALLEN:** I believe the contract

started September 12<sup>th</sup> --

**COMMISSIONER GARRISON-ENGBRECHT:** Okay.

**DEPUTY DIRECTOR ALLEN:** -- and then it'll just go three years from there.

**COMMISSIONER GARRISON-ENGBRECHT:** And then, based on your recommendation, (inaudible) memo, so is that (audio malfunction)?

**COMMISSIONER ALVIDREZ:** (Audio malfunction) were working?

**DEPUTY DIRECTOR ALLEN:** They were new. We did not have it (audio malfunction) we didn't have a history.

**COMMISSIONER ALVIDREZ:** So we don't know if those issues of capacity or fleet maintenance or some of the challenges that they experienced were standard, or unusual or just random?

**DEPUTY DIRECTOR ALLEN:** Or unique, yes. We're not sure, and as Tiffany said, we're grateful that we identified this before we entered into a contract and had to address it at that point.

**CHAIR AHERN:** All right. One more question from Peter.

**COMMISSIONER STERN:** One more quick question. It is noted here that SLED was providing a background investigation while Packtrack was working. Is that something that normally happens before they start executing

work, and can you --

**DEPUTY DIRECTOR ALLEN:** Packtrack had never started to do work, so that I believe that the contract was executed, and the background was in process, but in Sales and Marketing, we had not initiated work because we were waiting for it to be completed.

**COMMISSIONER GARRISON-ENGBRECHT:** Thank you.

**CHAIR AHERN:** Okay. Does any member of the public want to address the Commission at this time regarding Action Item 8h? Seeing and hearing none, do I hear a motion to approve Action Item 8h, the Ratification of Silver Star Movers Bulk Delivery Services Contract?

**COMMISSIONER GARRISON-ENGBRECHT:** Motion to approve.

**CHAIR AHERN:** We have a motion to (audio malfunction).

**MS. ESTRELLA:** Commissioner Garrison-Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Yes.

**MS. ESTRELLA:** Chairman Ahern?

**CHAIR AHERN:** Yes. All right, Sharon, you're two for two.

**DEPUTY DIRECTOR ALLEN:** All right. Let's go for three for three.

**CHAIR AHERN:** Number three. The action item is (audio malfunction).

**DEPUTY DIRECTOR ALLEN:** -- for Promotions and Marketing with Alcone Marketing Group.

With the Lottery's current contract for Promotions and Retail Marketing Services expiring in December of this year, the Lottery released a Request for Proposal last December to solicit bids for a new contract. To cast a wide net, notifications were sent to potential bidders obtained from the Lottery's vendor database, as well as to a list of top promotions in retail marketing agencies. In addition, it was posted on the Lottery's website and the California State Contracts Register. Ads were also placed in marketing industry publications and websites, inviting qualified agencies to participate in the RFP.

The RFP was developed with the understanding that the Lottery needs an agency partner to develop, produce, and implement essential promotions and retail marketing initiatives statewide. The Lottery requires an agency that can work collaboratively with Lottery staff and other partner agencies to strategically plan, create, and implement innovative and impactful promotions in retail marketing programs, including point-of-sale materials and displays distributed to over 23,000 retailers; retailer communication plans; business-to-business partnerships and promotional (audio malfunction) -- submitted proposals in response to the RFP. Only Alcone Marketing Group passed the

submittal phase and advanced to the finalist stage.

The Lottery's Evaluation Team determined that Alcone Marketing Group would provide the Lottery with the best value. They exceeded the Evaluation Team's expectations to deliver the services listed within the scope of work. Alcone Marketing Group demonstrated their ability to provide innovative, impactful, and cost-effective solutions for the Lottery to achieve its goals of successfully driving sales, elevating the Lottery brand, and positioning the Lottery for the future. Additionally, Alcone Marketing Group's Staff Plan met and exceeded the Evaluation Team's expectations in terms of quantity and quality of staff allocated to the Lottery account, as well as the cost savings for an all-inclusive staff (inaudible).

The Lottery requests the Commission approve awarding a contract to (audio malfunction).

**CHAIR AHERN:** We'll go to a -- any Commissioners have questions or comments regarding Action Item 8i? Seeing none, does any member of the public want to address the Commission at this time regarding Action Item 8i? Seeing and hearing none, do I hear (audio malfunction)? Is there a second?

**COMMISSIONER:** Second.

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

**MS. ESTRELLA:** Commissioner Stern?

**COMMISSIONER STERN:** Yes.

**MS. ESTRELLA:** Commissioner Mills?

**COMMISSIONER MILLS:** Yes.

**MS. ESTRELLA:** Commissioner Alvidrez?

**COMMISSIONER ALVIDREZ:** Yes.

**MS. ESTRELLA:** Commissioner Garrison-Engbrecht?

**COMMISSIONER GARRISON-ENGBRECHT:** Yes.

**MS. ESTRELLA:** Chairman Ahern?

**CHAIR AHERN:** Yes. Three for three, Sharon.

Good job.

**DEPUTY DIRECTOR ALLEN:** Thank you. I also just want to say this is a very important contract for the Lottery and the Sales and Marketing Team, and the process is extensive, taking well over a year to complete. It was particularly challenging, as the Procurement Services Unit was changing many processes (audio malfunction).

**CHAIR AHERN:** -- limited to three minutes. Is there any member of the public who wants to address the Commission at this time? Seeing and hearing none, we're scheduled for adjournment.

I'd like to welcome Anthony to our crew. We're five for five, and it's nice to have the seat filled, and once again, the IT people. I know you're not all that happy today, but we know we tried our best, and you were doing

great work until it got going.

So with that, we'll be adjourned. Thank you very much. (End of Recording)

**(MEETING ADJOURNED)**

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