

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – June 29, 2023

Sacramento, California

1. Call to Order

Chairman Gregory Ahern called the meeting of the California State Lottery Commission to order at 10:04 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.

Commission Members Present:

Chairman Gregory Ahern

Vice Chair Keetha Mills

Commissioner Tiffani Alvidrez (arrived at 10:12 a.m.)

Commissioner Anthony Garrison-Engbrecht

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

Paula Negrete, Deputy Director of Legislative and External Affairs

Sharon Allen, Deputy Director of Sales and Marketing

Elisa Topete, Assistant to the Commission

Rebecca Estrella, Recording Secretary

4. Election of Chair of the California State Lottery Commission 2023-24

Chairman Ahern called upon Fernando Aceves, Chief Counsel, to review the rules of the Commission elections. Mr. Aceves stated the rules according to the California State Lottery Act. Commissioner Keetha Mills nominated Chairman Ahern to remain as Chairman. With no other nominations for the position, Commissioner Ahern was unanimously approved to remain as Chairman.

5. Consider Approval of the Agenda

Chairman Ahern asked if any of the Commissioners wanted to make any changes to the June 29, 2023, proposed agenda. Since Commissioner Alvidrez was stuck in traffic, Commissioner Mills requested that items 9d through 9g be taken up first and then come back to items 9a through 9c. Commissioner Mills made the motion to approve the amended agenda and was seconded by Commissioner Garrison-

Engbrecht. The agenda passed unanimously. Consequently, items 9d through 9g were taken up first.

6. Approval of the Minutes

Chairman Ahern asked if there were any additions or corrections to the May 25, 2023, minutes. Commissioner Mills made the motion to approve the minutes of the May 25, 2023, Commission Meeting and was seconded by Commissioner Garrison-Engbrecht. The minutes passed unanimously.

7. Informational Items

a. Director's Comments

Director, Alva Johnson, stated that total fiscal year sales have now surpassed \$9 billion for the first time in the Lottery's 38-year history. Scratchers[®] sales had a strong surge over the past couple of months and will meet its goal for the year. Efforts such as expanding the popular Crossword-themed offerings to the \$30 price point, the evolution of the Scratchers marketing efforts to show how these games are an easy way to add a little play to one's day, and the addition of Walmart Supercenters to the Lottery's retail network have shown very positive impacts on Scratchers sales.

Sales for the three jackpot games combined significantly exceed the Lottery's goal by more than 60%. With their better profit margins, their success doesn't mean greater sales, but also even better contributions to education than expected. The daily games and Hot Spot[®] brought in slightly higher sales than expected this year as well. These games benefitted from rolling top prizes, greater traffic during the jackpot fever runs, and retail efforts that strengthened the Lottery's network and retail presence.

The Lottery's contribution to education this year is estimated to end the fiscal year with an all-time record of more than \$2.1 billion and will mark the second time in the Lottery's history that we have exceeded the \$2 billion threshold. Through May, the estimated funds for education are significantly exceeding our goal by 26%. Thanks to unprecedented jackpots this year and the hard-working dedication of Lottery staff, this fiscal year is expected to be another record-setting year for education.

8. Consent Calendar

9. Action Items

a. Strategic Direction

Jim Hasegawa, Deputy Director of Business Planning requested Commission approval for the four strategic objectives that were developed to outline a path to

increase the Lottery's contribution to education over the next several years. The strategic directions rely on growing sales in a responsible manner.

Chairman Ahern asked if the California Lottery added the third draw to Powerball. Mr. Hasegawa stated that the Powerball Consortium, which is the MUSL (Multi-State Lottery Association) organization, decided to add the additional draw nationally, therefore every lottery who sold the game had to adapt to those changes. Commissioner Mills asked how staff could make sure that the Lottery is weaving in innovation into the fabric of the California Lottery, seeing the example of the In-Lane solution example that is helping to boost presence of signage at large retailers in Texas.

Commissioner Mills also stated that if felt dangerous to take the emphasis on Mission, Vision, Values out as a specific objective. She stated that we need to highlight it because it is necessary to be able to do all of the things that are being presented. She also asserted that, many times when you try to depend on it weaving in, it gets lost. It is the least thing that anybody wants to work on, but it is necessary to achieve the other objectives. Regarding the innovation, she asked how the Lottery can get ahead of the innovation instead of following what other folks are doing, using the Texas Lottery as an example. She stated staff needs to make sure we are specifically focused on the infrastructure that we need, which will include policies and processes. Commissioner Mills went on to say that everything that we are doing is grounded in our Mission, Vision and Values, and that we are really focused on innovation because that is where we are going to achieve the financial goals of maintaining that upward trajectory of the contribution to education.

Mr. Hasegawa stated that the Texas Lottery's budget is run differently in that they have a very restrictive advertising and marketing budget, therefore making it difficult to achieve certain things that California could do. With some areas related to infrastructure being a recent priority after not being emphasized in earlier years, the Lottery's technology resources and staff were not able to begin implementing the In-Lane project this past year.

Director Johnson added that the Lottery's highest priorities of the past three or four years has been to make sure that we can maintain business during a crisis, support our mission goals of providing more funding to education, and making sure that we support the Lottery's workforce and meet our public policy mandates. Staff has been able to innovate in various ways, whether it is expanding into new retail channels like Walmart, deploying new machines that offer better and more attractive ways for folks to purchase Lottery products and will allow us to grow the business there. Also, staff is constantly working behind-the-scenes on issues as they are constantly evaluating performances to find trends that may not be optimal, such as the Hot Spot issue.

The overall Mission, Vision and Values continues to be important. Staff is striving to improve the knowledge and perceptions about the Lottery. We also want to make sure that the Lottery's employees understand the mission so that we can optimize our energies and efforts towards that mission. Director Johnson also stated that innovation continues to be an objective for us and explained that there are some hard constraints in the way the Lottery Act is written, including the use of technology. Other jurisdictions can offer games in a way that California cannot as it would require a change in the law. Commissioner Mills would like staff to focus on infrastructure, Mission, Vision, and Values. She would also like to see a focus on innovation.

Commissioner Mills asked for some information on what staff is doing in solving the cash barriers. Mr. Hasegawa stated that there will be a program next year to determine the feasibility of doing a pilot that will outfit a few of the Lottery's self-service machines to accept cashless payments like debit cards. This would involve many steps as part of the whole initiative.

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

b. Fiscal Year 2023-24 Business Plan

Jim Hasegawa, Deputy Director of Business Planning, requested Commission approval for a Business Plan that encompasses the objectives and tactical details for the upcoming year that are aligned with the Strategic Direction and needed to support the sales goals in the fiscal year budget.

Chairman Ahern asked if there were trademark issues with having Scratchers games with prominent names. Mr. Hasegawa stated that there are certain games that are licensed properties where the Lottery often pays a small fee to feature that brand on a Scratchers game. Commissioner Alvidrez had a question regarding removing barriers to expand Scratchers sales and asked for the status of the feasibility study to conduct a pilot for cashless payment. She wanted to know the total timeline that will be dedicated for the study and pilot program, and when the Commission can expect some recommendations. Mr. Hasegawa stated that the goal is to have the detailed planning done within the first six to eight months of this upcoming year. Staff hopes to have the feasibility study completed soon after the first of the year in order to plan for a pilot in the subsequent fiscal year. The pilot would run at least six months so that staff can get a good handle on the incremental sales, and conversion of sales to obtain stable results to understand the financial implications if it was to be rolled out statewide.

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 Garrison-Engbrecht. The motion passed unanimously.

c. Fiscal Year 2023-24 Budget and Presentation

Nicholas Buchen, Deputy Director of Finance, requested Commission approval for the prepared Fiscal Year 2023-24 budget that presents a sales goal of \$8.70 billion and is estimated to provide \$1.86 billion in supplemental funding to public education. The proposed budget includes resources to responsibly maintain operational growth as well as the resources necessary to implement the Lottery's FY 2023-24 Business Plan.

Chairman Ahern stated that for years, the Insurable Risk has been \$5 million dollars and asked if staff is looking into the future to increase that amount as the Lottery teams grow and the business gets larger. Mr. Buchen stated that the Commission would see that specific information at the September Commission meeting. The Lottery has a policy where every five years, staff conducts an analysis of the risk and based on that, decides what the Lottery's risk appetite should be in terms of what we can self-insure versus purchase insurance.

Commissioner Mills stated that she is not comfortable with the Lottery not being compliant with the requirement that the Lottery's net revenues allocated to public schools as reflected in its Commission-approved budget be at least as much as were allocated on average in the prior five fiscal years and noted that the budget is a very comfortable and conservative one. She went on to say that she is not comfortable, as a Commissioner, passing a budget that is not compliant with the Lottery's rules and regulations. She indicated the intention of that requirement is to be inspirational and encourage us to aspire to perform well and meet the requirement. She explained that the budget showing we will not meet that requirement felt disrespectful and in defiance of the Lottery's formation of rules and regulations. The Commissioners can see that the revenue amounts included in the budget are the researched, statistically viable, responsible numbers and then there are the less conservative numbers that will make us compliant so that we can continue to meet the mission to support public education and at the levels needed to meet the rules. She stated that it is a philosophical difference for her and that her vote would reflect that.

Mr. Buchen stated that because of timing, a full-blown analysis was not done to see what revenue assumptions would be needed to be in compliance with that provision for 2023-24. That exercise could have been done for the current 2023-24 budget, but then staff would be building a house of cards that sets up future budgets to have aggressive assumptions on top of aggressive assumptions. Staff

saw the house eventually falling which is why they chose to be on this side of the house of cards. Ms. Mills reiterated it was a philosophical difference and stated that the budget should show your values and what you are aspiring to do, which would be to meet the regulations. Mr. Buchen stated that another element that comes into play is that the sales force earns incentives based on their performance against the Lottery's sales goals. If the Lottery builds in goals that staff know are not the most achievable, then we are setting our sales force up to not have the motivation they need to do the best they can do to drive Lottery revenues.

Commissioner Garrison-Engbrecht asked how the Lottery discloses not meeting this requirement to the Governor's Office. Mr. Buchen stated that a memorandum was drafted for the Governor's Office and the Department of Finance, and each Commissioner was briefed individually. Commissioner Garrison-Engbrecht appreciated the conservative numbers and how the budget was structured to philosophically under promise and over deliver. He appreciated the team's diligence in putting together achievable sales goals with realistic numbers about the contribution to education. Commissioner Garrison-Engbrecht also stated that he appreciated the current approach of the proposed budget.

Chairman Ahern understood the challenge of putting together a budget without forecasting extraordinary events such as natural disasters that California has experienced, which all have an effect on the economy, which then has an effect on the amount of money that is gained through the California Lottery. He appreciated the fact that a budget was put together in a way that is consistent with the Lottery's strategic plan, business plan, financial plan and a budget for next year that is attainable. It is a fair and conservative budget, and Chairman Ahern stated that Director Johnson has done his job by being transparent in notifying the Commissioners of the issues with the five-year average requirement, and also making the necessary notification to the proper officials. All of the steps have been taken to be successful for California's educational program.

Commissioner Alvidrez appreciated the context that has been provided by the Commissioners and the Chair. She stated the Commissioners' roles are to raise flags when they see some discrepancies or challenges with what the mandates are, and what the Lottery's requirements and roles are as it relates to the stewardship and the responsibility to the public. She thanked staff for the work that went into the budget.

Commissioner Mills asked staff to continue to monitor how the Lottery is performing against the budget and its compliance with the five-year average requirement.

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 Garrison-Engbrecht made the motion to approve Action Item 9(c) and was seconded by Commissioner Alvidrez. Commissioner Mills abstained from voting and the motion passed 3-0.

d. Quantitative Market Simulation Research Services Contract

Jim Hasegawa, Deputy Director of Business Planning, requested Commission approval to enter into a three-year agreement with Knowledge Systems & Research, Inc. dba KS&R for quantitative market simulation research services. The contract term will begin August 1, 2023 through July 31, 2026.

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 Garrison-Engbrecht. The motion passed unanimously.

e. Problem Gambling Prevention Contract

Paula Negrete, Deputy Director of Legislative and External Affairs, requested Commission approval to enter into a three-year Interagency Agreement with the California Department of Public Health for the problem gambling prevention services provided by the Office of Problem Gambling.

Commissioner Mills asked how the price is negotiated with the Office of Problem Gambling and if we are confident that we are getting the best price for the service. Ms. Negrete stated that the Lottery analyzed the inflation rate and the cost of the annual Helpline. Ms. Negrete also stated that staff followed State policy and law regarding the services rendered, so they are consistent and attributable directly to services rendered.

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 Garrison-Engbrecht made the motion to approve Action Item 9(e) and was seconded by Commissioner Alvidrez. The motion passed unanimously.

f. Hot Spot® Prize Payout and Regulation Changes

Sharon Allen, Deputy Director of Sales and Marketing, requested Commission approval to modify the existing prize structure to optimize the game's sales performance and manage game expenses. The proposed game prize structure would increase the game's overall prize expense from 63% to 64%, reflecting a slight decrease in the Hot Spot prize payout and a more significant increase in the Bulls-eye prize payout.

Commissioner Mills asked what triggers a review of a game, and should staff be reviewing games more often since the last time a change was made to this game was over a decade ago. She also asked who was involved in this assessment, how long was the process, and is staff confident that they are obtaining the best solution that is coming forward. Ms. Allen stated that the Product Development Team with the Sales and Marketing Division has a responsibility of managing the product. The team observed games on an ongoing basis and examined how the games are performed and reported on trends in the sales data. They also work closely with both the Business Planning and Research Team and the Finance Division to find opportunities to improve games.

Ms. Allen also stated that it is crucial to look at our overall priorities to determine an appropriate amount of time to update the games, related materials and systems. Proper testing must also be performed. Doing all of this would ensure that, by the time it goes live, everything has been tested and ready to go. Communication of the game-change information to the Lottery's retailers and players is also essential. Chairman Ahern stated that staff is paying attention to the Lottery's casual players, and he was pleased those numbers are increasing.

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

Commissioner Garrison-Engbrecht made the motion to approve Action Item 9(f) and was seconded by Commissioner Mills. The motion passed unanimously.

g. Asian Consumer Market Advertising Agency Contract

Sharon Allen, Deputy Director of Sales and Marketing, requested Commission approval to enter into a contract with Intertrend Communications for Asian consumer marketing and advertising services.

Commissioner Alvidrez had a question about other marketing advertising contracts. Being that the Lottery engages in those contracts regularly as we try to explore various games that are ethically focused, she asked how the \$32 million contract compares with other kinds of targeted advertising contracts that the Lottery has used in the past. Ms. Allen stated that the last contract was entered several years ago, so the rates have changed. The compensation model has also changed to be all-inclusive labor-based instead of commission-based. Being labor-based, compensation does not change based on what the expenditures are, and the agencies can then staff the accounts based on that revenue expectation. All the Lottery's agencies work together as one kind of roster and one kind of team; whichever agency can provide the best service – either they have the expertise or the best value, staff will go to that agency.

Commissioner Mills asked about the transition process and if staff anticipates any additional costs or disruptions as a result of this transition. Ms. Allen stated

that there will be an overlap with the current and new vendors to make sure that knowledge is being transferred. Ms. Allen said that the Lottery is a member of the Association of National Advertisers, and they provide best practices for agency transition. Commissioner Garrison-Engbrecht thanked staff for their thorough process in the Request for Proposal so that the team had the multiphase process in selecting an appropriate vendor for the scale in this particular market and he appreciated the interest in diversifying the consumer market within the State of California.

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

Commissioner Garrison-Engbrecht made the motion to approve Action Item 9(g) and was seconded by Commissioner Alvidrez. The motion passed unanimously.

10. Commissioner General Discussion

Chairman Ahern asked if the Commissioners had anything they would like to discuss. Commissioner Mills asked the Director and staff to provide an informational presentation about the Mission, Vision, and Values project. Director Johnson stated that staff has recently completed some preliminary steps for the specific details of the program but are still being finalized and will be presented at a future Commission meeting.

11. Scheduling Next Meetings

The next Commission Meetings are tentatively scheduled for September 19 and November 9, 2023.

12. Public Discussion

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

13. Adjournment

Meeting adjourned at 12:32 p.m.