

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – September 29, 2022

Sacramento, California

1. Call to Order

Chairman Gregory Ahern called the meeting of the California State Lottery Commission to order at 10:01 a.m.

2. Pledge of Allegiance

Chairman Ahern led the Pledge of Allegiance.

3. Roll Call

Chairman Ahern asked Rebecca Estrella to call the roll. Ahern welcomed the Lottery's newest Commissioner, Anthony Garrison-Engbrecht.

Commission Members Present:

Chairman Gregory Ahern

Commissioner Peter Stern

Commissioner Keetha Mills

Commissioner Tiffani Alvidrez

Commissioner Anthony Garrison-Engbrecht

California State Lottery staff and presenters:

Alva Johnson, Director

Fernando Aceves, Chief Counsel

Carolyn Becker, Deputy Director of Public Affairs and Communication

Nicholas Buchen, Deputy Director of Finance

Tiffany Donohue, Deputy Director of Operations

Jim Hasegawa, Deputy Director of Business Planning

Jennifer Chan, Deputy Director of Information Technology Services

Sharon Allen, Deputy Director of Sales and Marketing

Rebecca Estrella, Recording Secretary

4. Consider Approval of the Agenda

Chairman Ahern asked if any of the Commissioners wanted to make any changes to the September 29, 2022, proposed agenda. Commissioner Mills made the motion to approve the agenda and was seconded by Commissioner Stern. The agenda passed unanimously.

5. Approval of the Minutes

Chairman Ahern asked if there were any additions or corrections to the June 30, 2022, minutes. Commissioner Stern made the motion to approve the minutes of the June 30, 2022, Commission Meeting and was seconded by Commissioner Mills. Commissioner Garrison-Engbrecht abstained from voting. The minutes passed 4-0.

6. Informational Items

a. Director's Comments

Director Johnson provided an estimate of total Lottery sales through September 17th of over \$1.8 billion, outperforming the sales goal by 9%. Through mid-September, Scratchers[®] distribution sales are totaling \$1.27 billion. The multi-state games sales surpassed this year's goals and last year's sales as the Mega Million[®] jackpot rolled to over \$1 billion at the end of July. Mega Millions brought in \$285 million, which is more than half of the total annual goal for this game this year. Powerball[®] did not reach 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.

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 and last year's sales. Fantasy 5 specifically had a grand prize upwards of \$900,000 at the end of August. Finally, Hot Spot's[®] sales through mid-September are over \$84 million, which are above goal, but slightly trail last year's sales.

The Lottery's contribution to education figures are based on the Lottery's monthly cumulative financial sales report through August 31st. Just two months into the fiscal year, total sales are running 13% ahead of its goal, while contributions to education are 26% higher than goal. This is due to a difference in the Lottery's product profit margins. The draw games have a higher profit margin than Scratchers games. So far this year, the unexpected boost in sales from the high Mega Millions jackpot contributed to greater than expected profit at a faster rate than anticipated. The estimated contributions to education are over \$350 million, which is also 13% higher than the start of last fiscal year.

Director Johnson stated that in July, we experienced Jackpot Fever, as the Mega Millions jackpot rolled to \$1.28 billion before it was hit on July 29th. Sales for just the July 29th draw alone were over \$100 million and staff estimated that over a quarter of California adults purchased a ticket for the July 29th draw. While the excitement and press grew, the Lottery's Public Affairs and Communications (PAC) group made sure to highlight the historic jackpot. They released messaging about responsible gaming, how to play, and how schools benefit from Lottery games. Director Johnson also provided information on the new GameTouch touchscreen vending machines that were rolled out to Lottery retailers.

Commissioner Stern asked what percentage of the touchscreens have been rolled out to date and what does the forecast look like once the Lottery sees full productivity. Sharon Allen, Deputy Director of Sales and Marketing, responded that the latest numbers were approximately 40% to Walmart and close to 50% to Safeway and Albertsons.

b. California Lottery: Changing the Narrative

Carolyn Becker, Deputy Director of PAC, explained that “Changing the Narrative” means raising awareness to Californians about the Lottery’s mission, addressing myths and misperceptions, and humanizing the Lottery through storytelling. Ms. Becker spoke of the importance of internal staff messaging in terms of honoring the Lottery’s commitment to transparency and shared stories of Lottery dollars in action. The PAC team recently filmed a segment at a middle school in the Mt. Diablo School District in Contra Costa County, to show how the Lottery’s funding was used to benefit the school. (Video played).

Commissioner Mills asked how members of the public can view the video. Ms. Becker explained that the video will be amplified in social media and will be on the Lottery’s YouTube channel. She stated that the video will be the first of many, as staff has contacted many school districts across California in hopes of bringing the Lottery’s video and storytelling team to their school. Commissioner Mills appreciated the transparency with the media stories and how the Lottery is seizing the opportunity to relay important messaging.

7. Consent Calendar

8. Action Items

a. Lottery Investment Policy and Investment Strategy

Nicholas Buchen, Deputy Director of Finance, requested Commission approval for the existing Investment Policy and Investment Strategy for 2022, which will focus on ongoing investment activity in support of SuperLotto Plus, Mega Millions, Powerball, and various Scratchers games. The maintenance of the Lottery’s Investment Portfolio also includes monitoring and mitigating potential investment risk.

Commissioner Mills asked if Mr. Buchen could provide additional information on how the market volatility impacts these investments. She went on to say that what is seen on paper are market losses that we don’t expect to be realized because the Lottery will hold to maturity and be able to reap the full value of the item we invested in.

Mr. Buchen stated that the Lottery already recognized the full prize expense so that any changes until maturity are just on paper. Ms. Mills asked if we were expecting the market volatility to impact the Lottery’s ability to honor any of its payouts. Mr. Buchen responded that we were not expecting the volatility to impact the Lottery’s strategy.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(a). No one came forward, so he proceeded to the motion.

Commissioner Mills made the motion to approve Action Item 8(a) and it was seconded by Commissioner Garrison-Engbrecht. The motion passed unanimously.

b. Construction Services Contract, Z Squared Construction

Tiffany Donohue, Deputy Director of Operations, requested Commission approval to enter into an Agreement with Z Squared Construction for the Northern Distribution Center remodel project.

Commissioner Alvidrez thanked Ms. Donohue for including the 13% addition to costs in anticipation of supply-chain issues, possible change orders and overages.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(b). No one came forward, so he proceeded to the motion.

Commissioner Alvidrez made the motion to approve Action Item 8(b) and was seconded by Commissioner Garrison-Engbrecht. The motion passed unanimously.

c. Construction Services Contract for Headquarters Security Fence

Tiffany Donohue, Deputy Director of Operations, requested Commission approval to enter into an Agreement with Arktos Incorporated for the fabrication and installation of perimeter security fencing and access-controlled gates for the Lottery Headquarters campus.

Chairman Ahern stated the Lottery has a year to put up the fence, from October 10th to the following year, 2023, and then there are two one-year options. He asked if this is for the safety protocol in case there are issues where they cannot do the construction. Ms. Donohue stated that was correct. Staff tries to be proactive in its planning by building in amendment flexibility to contracts, which is incredibly important, as securing a specific system or equipment can take months. If that situation happens, then the Lottery would have to extend the contract to be able to complete the work under the same bid cost that we received.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(c). No one came forward, so he proceeded to the motion.

Commissioner Stern made the motion to approve Action Item 8(c) and was seconded by Commissioner Mills. The motion passed unanimously.

d. Advertising Tracking Services Contract Amendment

Jim Hasegawa, Deputy Director of Business Planning, requested Commission approval for the second optional one-year contract extension, add additional pricing options for more advance Ad Tracking services, and add funds to the Ipsos Limited Partnership (Ipsos) contract. This research is critical in developing and measuring advertising efforts, product linkage, emotional connection, and call-to-action associated with the Lottery.

Commissioner Stern asked if staff could provide the Commission with a Report of Findings based on the analysis. Mr. Hasegawa stated that staff would provide that information under separate cover. Commissioner Mills asked if there were any concerns with the vendor's ability to honor the pricing that was negotiated in 2018. Mr. Hasegawa had no concerns, as it was discussed with Ipsos. Ms. Mills asked when the Request for Proposal process will begin since this is the last extension. Mr. Hasegawa stated that it is a lengthy process and staff will begin working with Procurement Services next month.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(d). No one came forward, so he proceeded to the motion.

Commissioner Mills made the motion to approve Action Item 8(d) and was seconded by Commissioner Alvidrez. The motion passed unanimously.

e. Sitecore Content Management System Renewal

Jennifer Chan, Deputy Director of Information Technology Services, requested Commission approval to enter into a 24-month agreement to renew the existing subscription licensing and premium level support for Sitecore Experience Platform, the Content Management System for the Public Website.

Commissioner Garrison-Engbrecht thanked Ms. Chan for addressing system vulnerabilities and relaying what liabilities may exist.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(e). No one came forward, so he proceeded to the motion.

Commissioner Garrison-Engbrecht made the motion to approve Action Item 8(e) and was seconded by Commissioner Alvidrez. The motion passed unanimously.

f. Request to Add Positions

Nicholas Buchen, Deputy Director of Finance, requested Commission approval for eleven positions and the associated funding to support critical operational needs of the Lottery.

Commissioner Mills asked why these positions were not included in the June 2022 budget that was approved by the Commission. Mr. Buchen responded that it was an oversight that they were not included, and also indicated that he is requesting approval for additional positions due to unexpected operational needs. For the additional positions, efforts go on throughout the year and staff realizes that certain functions cannot be done with existing resources. At the time the budget was developed, these needs were not yet known.

Ms. Mills asked Director Johnson how the new position that will manage the mission, vision, and values project in the Human Resources (HR) Department, will interact and work with Executive Management on this project. Director Johnson stated that this particular position will report to the Assistant Deputy Director and Deputy Director of Human Resources. HR leadership meets regularly with the Director and Chief Deputy Director, not only in weekly Executive Management Team meetings, but also in regular monthly meetings. The expectation is that there will be regular progress updates on the Lottery's overall success on goals for the program.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(f). No one came forward, so he proceeded to the motion.

Commissioner Mills made the motion to approve Action Item 8(f) and was seconded by Commissioner Garrison-Engbrecht. The motion passed unanimously.

g. Scratchers® Core Game Profile Templates

Sharon Allen, Deputy Director of Sales and Marketing, requested Commission approval for 16 newly created Core game profile templates to provide greater variety in design for Scratchers games.

Chairman Ahern asked who sets the payout percentages. Ms. Allen stated that there is a policy overall for the portfolio to hit the optimal prize payout, which is in the range that was recently updated, and staff works with a vendor to help determine the optimal range. Staff looks at the total portfolio, balancing both Draw Games and Scratchers, and then analyzes the different price points within the two. It is set through the policy that gets developed with Business Planning, Sales and Marketing, Finance, and Legal.

Commissioner Mills asked if all of the Scratchers Core templates were reviewed as part of the process or just the \$1 games. Ms. Allen stated that all price points and games were reviewed, however the \$1 game profiles needed the most optimization, which is why they require Commission approval. Ms. Mills also asked who assesses the materiality of the changes that are presented to the Commission. Ms. Allen explained that it was a joint effort with the Sales and Marketing Product Development team, Finance and Legal Divisions.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(g). No one came forward, so he proceeded to the motion.

Commissioner Stern made the motion to approve Action Item 8(g) and was seconded by Commissioner Mills. The motion passed unanimously.

h. Ratification of Silver Star Movers Bulk Delivery Services Contract

Sharon Allen, Deputy Director of Sales and Marketing, requested Commission approval for the ratification of a new three-year contract with Silver Star Movers, Inc. to provide designated bulk delivery services between the Southern Distribution Center and five Southern California District Offices for Scratchers tickets and Point-of-Sales delivery.

Commissioner Mills asked how staff evaluates the types of potential issues such as the ability to execute and quality when going through the bid evaluation process with price being the key element. Ms. Allen explained that there are different types of solicitations, depending on the service. In this particular case, it is an invitation for bid, which is primarily based on certification that they have the capabilities to complete the work and then based on price. Tiffany Donohue, Deputy Director of Operations, added that there are bid requirements that competitors must agree to in order to be determined responsive. With the previous vendor, they could ultimately fulfill the work. However, between the time that they submitted the bid and when the Lottery staff moved to start acquiring the services, the vendor encountered several issues with their fleet. Vehicles began breaking down, which put the delivery service in jeopardy. The Lottery then went to the second-lowest bidder while the invitation for bid was still in play.

Commissioner Garrson-Engbrecht wanted confirmation that the contract was for three years. Ms. Allen stated that it is a three-year contract that began September 12th. Commissioner Alvidrez asked if the previous vendors issue of fleet maintenance were standard or if they were unusual or random. Ms. Allen answered that she was not certain if they were unusual, but staff was grateful that the problems from the previous vendor were identified before the Lottery entered into a contract. Commissioner Stern asked if the Lottery's Security and Law Enforcement Division was conducting a background investigation while the previous vendor was already working. Ms. Allen stated the contract was executed and the background was in process, but work had not yet been initiated as staff was waiting for the completion of the background check.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(h). No one came forward, so he proceeded to the motion.

Commissioner Garrison-Engbrecht made the motion to approve Action Item 8(h) and was seconded by Commissioner Alvidrez. The motion passed unanimously.

i. Contract for Promotions and Retail Marketing Agency

Sharon Allen, Deputy Director of Sales and Marketing, requested Commission approval to award the promotions and retail marketing services contract to Alcone Marketing Group for an initial term of five years, with options to extend the contract for up to two additional one-year terms.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(i). No one came forward, so he proceeded to the motion.

Commissioner Stern made the motion to approve Action Item 8(i) and was seconded by Commissioner Garrison-Engbrecht. The motion passed unanimously.

9. Commissioner General Discussion

10. Scheduling Next Meetings

The next Commission Meeting is tentatively scheduled for December 8, 2022.

11. Public Discussion

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

12. Adjournment

Meeting adjourned at 11:28 a.m.