

STATE OF CALIFORNIA
TRANSCRIPT OF PROCEEDINGS

CALIFORNIA STATE LOTTERY COMMISSION
COMMISSION MEETING

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DATE: Thursday, June 27, 2024
PLACE: California State Lottery Headquarters
700 North 10th Street
Sacramento, California 95811

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A P P E A R A N C E S

California State Lottery Commission

Gregory Ahern
Chair of the Commission
Commissioner

Keetha Mills
Vice Chair of the Commission
Commissioner

Tiffani Alvidrez
Commissioner

Anthony Garrison-Engbrecht
Commissioner

Participating Lottery Commission Staff

Harjinder K. Shergill Chima
Director

Daniel Pott
Staff Counsel

Sharon Allen
Deputy Director of Sales & Marketing

Jim Hasegawa
Deputy Director of Business Planning

Nicholas Buchen
Deputy Director of Finance

Elisa Topete
Assistant to the Commission

Rebecca Estrella
Recording Secretary

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1 **Thursday, June 27, 2024**

2 **Sacramento, California**

3 **--oOo--**

4 **CHAIR AHERN:** We'll call our Commission meeting
5 to order. We're going to start with the Pledge of
6 Allegiance; please join me.

7 *(The Pledge of Allegiance was recited.)*

8 **CHAIR AHERN:** Thank you. Staff Counsel Daniel
9 Pott can you please review the rules on running the
10 elections?

11 **STAFF COUNSEL POTT:** Yes. Thank you, Chair Ahern.
12 The California State Lottery Act provides that the
13 Commission shall elect annually from its membership a
14 chairperson per California Government Code Section 80-80.19.
15 Commission may also elect a Vice Chairperson of the
16 Commission. Any Commissioner can put the name of any
17 Commissioner into nomination, and a Commissioner can
18 nominate himself or herself to serve as the Chairperson or
19 Vice Chairperson. The Lottery Act does not require a
20 particular method of making nominations. Once nominations
21 have been made, Chair Ahern shall declare the nominations
22 closed.

23 **CHAIR AHERN:** All right, thank you. We better
24 start by having the Secretary please call the roll?

25 **MS. TOPETE:** (Inaudible).

1 **COMMISSIONER MILLS:** Here. Sorry, we can't hear
2 you.

3 **COMMISSIONER ALVIDREZ:** We can't hear you, Elisa.
4 Present.

5 **COMMISSIONER GARRISON-ENGBRECHT:** Present.

6 **MS. TOPETE:** (Inaudible)

7 **CHAIR AHERN:** Here. All right, thank you. And I
8 think we have congratulations for our Director, whose
9 appointment was recently approved by the Senate Rules
10 Committee on June 19th by a near vote, a close vote of 3-0.
11 Her appointment has been sent to the full Senate; it still
12 has to go up to the full Senate for consideration, but
13 congratulations here again, and thank you for your
14 leadership.

15 **DIRECTOR CHIMA:** Thank you so much, Chair
16 Ahern.

17 **CHAIR AHERN:** Now we should move on to the
18 Election for Chair and Vice Chair, all right? So, we've
19 heard Staff Counsel report on the nominations. We shall
20 open the nominations for positions of Chair and Vice
21 Chairperson of the Commission. We have received a
22 nomination for Commissioner Garrison-Engbrecht for Chair
23 position and a nomination for Commissioner Mills to remain
24 as Vice Chair.

25 **STAFF COUNSEL POTT:** Thank you. To finish just

1 with the instructions really quick, the votes are asked of
2 each Commissioner on the nomination. As with all Commission
3 votes under the Lottery Act, it takes a minimum of three
4 Commissioners to hold the vote, and a majority of votes to
5 take action. Chair Ahern will then declare the results of
6 the election. So, I would like to note for the record that
7 Commissioner Garrison-Engbrecht has received a nomination
8 for the Commission Chair. Commissioner Mills has received a
9 nomination for Commission Vice Chair. Now, other than
10 Commissioner Garrison-Engbrecht, are there any other
11 nominations for the position of Chairperson of the
12 Commission?

13 **CHAIR AHERN:** Any other nominations? Okay. Then
14 they can close; the nominations are closed. Can we please
15 have a vote by roll call?

16 **MS. TOPETE:** (Inaudible)

17 **COMMISSIONER MILLS:** Yes.

18 **MS. TOPETE:** Commissioner Alvidrez?

19 **COMMISSIONER ALVIDREZ:** Yes.

20 **MS. TOPETE:** Commissioner Garrison-Engbrecht?

21 **COMMISSIONER GARRISON-ENGBRECHT:** Yes.

22 **MS. TOPETE:** Chairman Ahern?

23 **CHAIR AHERN:** Yes. Okay, the election for
24 Commissioner Garrison-Engbrecht, Chair for the California
25 State Lottery Commission, is approved. And other than

1 Commissioner Mills, are there any nominations for the
2 position of Vice Chair on the Commission? I took your part.

3 **STAFF COUNSEL POTT:** That's okay.

4 **CHAIR AHERN:** Okay. I now declare the
5 nominations closed; can we please take a vote by roll call?

6 **MS. TOPETE:** Commissioner Mills?

7 **COMMISSIONER MILLS:** Yes.

8 **MS. TOPETE:** Commissioner Alvidrez?

9 **COMMISSIONER ALVIDREZ:** Yes.

10 **MS. TOPETE:** Commissioner Garrison-Engbrecht?

11 **COMMISSIONER GARRISON-ENGBRECHT:** Yes.

12 **MS. TOPETE:** Chairman Ahern?

13 **CHAIR AHERN:** Yes. All right. Congratulations
14 to you, and thanks for doing (inaudible). Okay, moving on
15 to some business.

16 **COMMISSIONER MILLS:** Chair Ahern, may I --

17 **CHAIR AHERN:** Yes.

18 **COMMISSIONER MILLS:** -- make a comment? First,
19 thank you, my colleagues; I'm honored to continue in this
20 roll of Vice Chair of the Commission, and congratulations to
21 my colleague. Thank you for being willing and eager to take
22 the leadership role; I look forward to working with you.
23 But I would like to ask, I understand from what you
24 presented that there are no, kind of, rules or requirements
25 or processes that we're required to follow when doing

1 nominations, but I wondered, you know, good governance is a
2 really big part of, like, what we do on this Board, and I
3 wondered if staff could help us pull together maybe best
4 practices on how we might think about officer elections and
5 rotation and just making sure that we're at least
6 considering, you know, good governance best practices and
7 rotating leadership on the Board.

8 **STAFF COUNSEL POTT:** Yes, I definitely believe we
9 can do that.

10 **COMMISSIONER MILLS:** Okay. Can we have a motion on
11 that?

12 **CHAIR AHERN:** I don't think we can put a motion
13 on that. I think it's probably a direction to the Staff to
14 come up with some best practices and report back to us.

15 **COMMISSIONER ALVIDREZ:** Yes, that's what we can
16 do. We can go ahead and have Staff Counsel look at best
17 practices, and maybe at the September meeting make a
18 presentation on what those are.

19 **COMMISSIONER MILLS:** That'd be great.

20 **STAFF COUNSEL POTT:** Yes, we'll do that.

21 **COMMISSIONER MILLS:** Thank you.

22 **CHAIR AHERN:** Okay. If I'm right, we can move on
23 to Item #5. Okay, we'll talk about Consider Approval of the
24 Agenda. I was notified that Action Item #9c, Amendment to
25 Add Funds to Z Squared Construction Agreement for Completion

1 of the Northern Distribution Center Remodel is being pulled
2 from the Agenda. Commissioners, does anyone want to suggest
3 any additional changes to today's agenda in any respect?
4 Hearing none, do I hear a motion to adopt the amended
5 agenda?

6 **COMMISSIONER GARRISON-ENGBRECHT:** Motion to
7 adopt.

8 **CHAIR AHERN:** We have a motion, and is there a
9 second?

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

11 **CHAIR AHERN:** A motion and a second; will the
12 Secretary please call the roll?

13 **MS. TOPETE:** (Inaudible)

14 **COMMISSIONER MILLS:** Yes.

15 **MS. TOPETE:** (Inaudible)

16 **COMMISSIONER ALVIDREZ:** Yes.

17 **MS. TOPETE:** Commissioner Garrison-Engbrecht?

18 **COMMISSIONER GARRISON-ENGBRECHT:** Yes.

19 **MS. TOPETE:** (Inaudible)

20 **CHAIR AHERN:** Yes. Okay. Item #6 is the
21 Approval of the Minutes. Are there any corrections to the
22 minutes? Hearing none, do I hear a motion to approve the
23 minutes on the May 23rd, 2024 Commission Meeting?

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

25 **CHAIR AHERN:** We have a motion, and is there a

1 second?

2 **COMMISSIONER ALVIDREZ:** Second.

3 **CHAIR AHERN:** A motion and a second; will the
4 Secretary please call the roll?

5 **MS. TOPETE:** (Inaudible)

6 **COMMISSIONER MILLS:** Yes.

7 **MS. TOPETE:** (Inaudible)

8 **COMMISSIONER ALVIDREZ:** Yes.

9 **MS. TOPETE:** Commissioner Garrison-Engbrecht?

10 **COMMISSIONER GARRISON-ENGBRECHT:** Abstain.

11 **MS. TOPETE:** Chairman Ahern?

12 **CHAIR AHERN:** Yes. Okay, we have Item #7,
13 Informational Items, and there are none, so we'll move on to
14 Director's Comments and call on Harj for those.

15 **DIRECTOR CHIMA:** Good morning, Commissioners.

16 **COMMISSIONERS:** Good morning.

17 **DIRECTOR CHIMA:** I have the honor to share with
18 you that we are on track for another record-breaking year.
19 Two weeks ago, our total Lottery sales surpassed \$9 billion.
20 That's a milestone that we've only achieved once before,
21 just last year, and our projections for the remainder of the
22 fiscal year look to hit a new high. This has been a really
23 exceptional year for us. You may recall from this meeting
24 last year that we were anticipating some slower growth, but
25 we've been really doing a great job, and it's once again

1 pushed forward because of several billion-dollar jackpots
2 from our multi-state games. Our largest jackpot this year
3 came from our Powerball, and it was at \$1.7 billion, and it
4 was won by a group from Frazier Park. Scratchers, which
5 make up 70 percent of our total sales, are just \$25 million
6 below goal, but they're still showing growth from last year.
7 And all but two of our draw games have exceeded our
8 expectations this year, thanks to strong top prizes and
9 cross-play. As you're well aware, the whole reason that
10 we're all here is to support California's public schools and
11 to provide supplemental funding to them, and I'm so pleased
12 to announce that as of the end of May, we have hit \$2
13 billion to Education. This is the third year in a row that
14 we've accomplished that goal, and it couldn't be done
15 without our exceptional Lottery team. They work
16 extraordinarily hard to make sure that Californians have
17 entertaining Lottery games that they can play, but in a
18 responsible way. As we continue to work towards our goals
19 to maintain more than \$2 billion to public schools and
20 education, without any exceptional events, such as rare
21 jackpots or a pandemic impact, and our plan is to do exactly
22 that next year as you'll hear in just a little bit with the
23 Business Plan. With that, I'm happy to answer any questions
24 that you might have.

25 **CHAIR AHERN:** Anyone have any questions?

1 **COMMISSIONER MILLS:** I'll just say congratulations;
2 it's phenomenal, and, but just amazing contributions to
3 public education in California, so, well done.

4 **DIRECTOR CHIMA:** Thank you, and all of that
5 really goes to our staff who do such a great job.

6 **COMMISSIONER GARRISON-ENGBRECHT:** Congratulations.

7 **CHAIR AHERN:** Okay, Item #8, Consent Calendar.
8 There are no items under Consent, so we'll proceed to the
9 Action Items. Coming up to bat is Sharon Allen, Action Item
10 #9a, Corrected Scratchers Core Game Profile Templates.

11 **DEPUTY DIRECTOR ALLEN:** All right, good morning,
12 Chairman and Commissioners.

13 **CHAIR AHERN:** Good morning.

14 **DEPUTY DIRECTOR ALLEN:** Good morning. All right.
15 The Lottery utilizes four templates in the creation of
16 Scratchers games. These templates define the overall
17 financial structure for each game, including information
18 such as potential revenue, prize tiers, odds, and prize
19 payout. Per Lottery regulations, the new four templates
20 require Commission approval. Scientific Games, the
21 Lottery's primary Scratchers printing vendor, created 18 new
22 templates that were approved in last month's Commission
23 Meeting, including templates for new \$25 and \$40 games.
24 However, as Scientific Games began development of the first
25 of these new games, they notified the Lottery that it had

1 identified errors in eight of the templates created for the
2 new \$25 and \$40 price categories. These were underlying
3 formula errors that would not have been visible to Lottery
4 staff during its review process. Fortunately, the errors
5 were identified before the templates were used to create
6 games, so no games were created or printed with these flawed
7 templates. Scientific Games returned corrected templates
8 within three days of identifying the error. The corrected
9 templates remain within the scope of the original payout
10 range and have the same top prize. It was also confirmed
11 there were no errors in any of the other templates approved
12 in the May meeting. In addition to correcting their
13 erroneous templates, the vendor is implementing a corrective
14 action plan to enhance its QA process to ensure the accuracy
15 of templates going forward. Scientific Games will also
16 conduct an extensive review of all Lottery templates, add
17 new steps to the QA process, and leverage proprietary
18 software to its review to ensure accuracy in current and
19 future templates. This is in addition to the substantial
20 manual and automated reviews that games regularly receive
21 during this game development process. Internally, Lottery
22 staff will also develop a new process to enhance the review
23 of new templates developed by vendors in order to double-
24 check key information and calculations. Additionally, the
25 flawed templates will be removed from the Lottery's active

1 portfolio of templates. Lottery staff recommends that the
2 Commission approve these eight corrected Scratchers Board
3 Game templates to replace the flawed template, and I'm happy
4 to answer any questions.

5 **CHAIR AHERN:** All right, does anyone have any
6 questions? Go ahead.

7 **COMMISSIONER MILLS:** Thanks, Sharon, for the
8 report. You may have said this; it was hard when you were
9 reading. So, can you say again, like, what is the vendor
10 going to do to enhance their controls to make sure this
11 doesn't happen again, and are there things that we can do to
12 enhance our review process or testing to make sure that what
13 is brought to the Commission to approve is accurate?

14 **DEPUTY DIRECTOR ALLEN:** Yes, absolutely, on both
15 fronts. So, the vendor and all of our vendors that develop
16 templates we'll do the same with, and Scientific Games is
17 enhancing its quality assurance process to make sure
18 everything is accurate, and this will include an extensive
19 review of all of our current templates and adding new steps
20 into the process, using a proprietary software that they
21 have to double-check all the formulas and make sure that
22 everything adds up. This is already in addition to manual
23 and automated reviews that they receive once the game goes
24 into development, from the template, and then it goes into
25 active development. Also, the Lottery internally will

1 develop a new process that allows us to check these
2 templates that the vendor produces, so a way to look under
3 the hood, if you will, at the underlying formulas and make
4 sure that everything is correct instead of having it later
5 in the process. But the good news is that it was caught.
6 Unfortunately, it should have been caught at the earlier
7 process, but it was caught before the impact was realized.

8 **COMMISSIONER MILLS:** Has this ever happened before
9 with this vendor?

10 **DEPUTY DIRECTOR ALLEN:** No --

11 **COMMISSIONER MILLS:** Okay.

12 **DEPUTY DIRECTOR ALLEN:** -- not to our knowledge,
13 I should say. We have no record of that.

14 **COMMISSIONER MILLS:** Do they serve other lotteries
15 as well?

16 **DEPUTY DIRECTOR ALLEN:** Does Scientific Games
17 work with other --

18 **COMMISSIONER MILLS:** Uh-huh.

19 **DEPUTY DIRECTOR ALLEN:** Yes. They're one of the
20 leading providers in the world.

21 **COMMISSIONER MILLS:** Do we know if it happened with
22 other lotteries?

23 **DEPUTY DIRECTOR ALLEN:** I am not sure. Team, do
24 we know if this has ever happened with other lotteries?

25 **COMMISSIONER MILLS:** So, just us. Yes, if whatever

1 the error was for us, did it happen --

2 **DEPUTY DIRECTOR ALLEN:** Has it happened?

3 **COMMISSIONER MILLS:** -- was it pervasive, or?

4 Okay. Got it. Okay. Thank you. Yes, this one was hard
5 for me because when it came across the first time, I was,
6 like --

7 **DEPUTY DIRECTOR ALLEN:** I remember.

8 **COMMISSIONER MILLS:** -- how am I supposed to know,
9 you know?

10 **DEPUTY DIRECTOR ALLEN:** Got it.

11 **COMMISSIONER MILLS:** And so, I asked a lot of
12 questions about it, and now it's coming back with an error,
13 so it just makes me a little hesitant.

14 **DEPUTY DIRECTOR ALLEN:** And we didn't, you know,
15 it's, like, this is a good learning experience for us.
16 Like, you know, the process did catch it along the way, but
17 now we have a way to enhance our process. Fortunately, it
18 hadn't happened before --

19 **COMMISSIONER MILLS:** Okay.

20 **DEPUTY DIRECTOR ALLEN:** -- and so, now that it
21 has, we can put the steps in place to correct it moving
22 forward and strengthen our process in development and make
23 sure that we have documentation and part of the process in
24 Contracts and Requirements moving forward.

25 **COMMISSIONER MILLS:** Okay, thank you.

1 **DEPUTY DIRECTOR ALLEN:** Okay.

2 **CHAIR AHERN:** All right, any other questions?

3 **COMMISSIONER ALVIDREZ:** I think as disconcerting
4 as it is to hear that there was a problem with the process,
5 it is encouraging to know that there is a process and that
6 the process does work. I think that's kind of the bigger
7 piece for me.

8 **DEPUTY DIRECTOR ALLEN:** Yes.

9 **COMMISSIONER ALVIDREZ:** Clearly, it would have
10 been ideal if we had caught it at the front end, but the
11 fact that the process works -- and that's the challenge with
12 a process, right? You never know if the process that you
13 created to catch problems really works until there's a
14 problem, and so, it is heartening to know that the process
15 does work. As you've already said, it does give us more
16 food for thought as to kind of how to tweak the process and
17 improve upon that. Especially as we explore more
18 innovative, more technological advances, you know, we kind
19 of incorporate a lot of those pieces into the work that we
20 do, it's important to know that the pieces that we put in
21 place, the safety nets we put in place, are actually
22 working. So, thank you for that, and I appreciate also the
23 transparency in this format to let us know that there has
24 been a problem, that the problem has been corrected, and
25 that some adjustments will be made for the future. So,

1 thank you so much.

2 **DEPUTY DIRECTOR ALLEN:** Yep.

3 **CHAIR AHERN:** All right. Any other questions or
4 comments? All right, does any member of the public want to
5 address the Commission at this time regarding Action Item
6 #9a? Seeing none, do I hear a motion to approve Action Item
7 #9a, Corrected Scratchers Core Game Profile Templates?

8 **COMMISSIONER ALVIDREZ:** Motion to approve.

9 **CHAIR AHERN:** We have a motion, and is there a
10 second?

11 **COMMISSIONER GARRISON-ENGBRECHT:** Second.

12 **CHAIR AHERN:** A motion and a second; will the
13 Secretary please call the roll?

14 **MS. TOPETE:** (Inaudible).

15 **COMMISSIONER MILLS:** Yes.

16 **MS. TOPETE:** (Inaudible)

17 **COMMISSIONER ALVIDREZ:** Yes.

18 **MS. TOPETE:** (Inaudible).

19 **COMMISSIONER GARRISON-ENGBRECHT:** Yes.

20 **MS. TOPETE:** (Inaudible).

21 **CHAIR AHERN:** Yes. All right, thank you. Now
22 I'd like to call on Sharon Allen, Action Item #9b, Extension
23 of the Circus LAX, LLC (Doing business as Media.Monks)
24 Contract.

25 **DEPUTY DIRECTOR ALLEN:** All right.

1 **CHAIR AHERN:** Did I say L-A-X correctly, you
2 guys' verbiage?

3 **DEPUTY DIRECTOR ALLEN:** Yes, that's right. The
4 Lottery currently contracts with Circus LAX, LLC, otherwise
5 known as Media.Monks for Hispanic Advertising and Marketing
6 Services. Media.Monks is responsible for assisting the
7 Lottery in overall market analysis, strategy development,
8 creative messaging, and media strategy and planning for the
9 Lottery's marketing and advertising initiatives toward the
10 Hispanic consumer market in California. In 2019, the
11 Commission awarded Media.Monks a five-year contract for
12 these services, with an initial contract expenditure
13 authority of \$30 million and two one-year extension options.
14 Exercising the first one-year contract extension option now
15 will enable the Lottery to continue essential marketing
16 efforts without interruption. Over the course of the
17 current contract, Media.Monks has consistently provided a
18 high level of service and expertise. While the Lottery
19 could consider going out to bid this year, it is not
20 recommended while we have a very capable agency partner in
21 place. Additionally, the extension will avoid resource
22 conflicts with other marketing agency procurements currently
23 underway. The marketing contract procurement process is
24 complex, lengthy, and places an extraordinary strain on
25 staff resources. Executing two marketing agency

1 procurements simultaneously would not be manageable and
2 could detrimentally impact marketing operations and
3 programs, its success. Extending the Media.Monks contract
4 will allow Lottery staff to stagger the procurement efforts
5 and provide sufficient time to develop and release the
6 Hispanic Advertising and Marketing Services RFP at a later
7 date. The contract is approximately \$8.7 million of funding
8 currently available in the remaining contract term. There
9 will be sufficient funding for the extension period, so no
10 additional funding is necessary at this time. Lottery staff
11 recommends that the Commission approve a one-year extension
12 of the Media.Monks contract, extending the contract through
13 October 17th, 2025, with an unchanged maximum authorized
14 contract expenditure authority of \$30 million. And with
15 that, I'd be happy to answer questions.

16 **CHAIR AHERN:** Okay. Do any Commissioners have
17 any questions regarding this item? No questions on Action
18 Item #9b; any member of the public want to address the
19 Commission at this time regarding Action Item #9b? Seeing
20 none, do I hear a motion to approve Action Item #9b,
21 Extension of the Circus LAX, LCC, doing business as
22 Media.Monks Contract?

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

25 **CHAIR AHERN:** A motion to approve; is there a

1 second?

2 **COMMISSIONER ALVIDREZ:** Second.

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

5 **MS. TOPETE:** (Inaudible)

6 **COMMISSIONER MILLS:** Yes.

7 **MS. TOPETE:** (Inaudible)

8 **COMMISSIONER ALVIDREZ:** Yes.

9 **MS. TOPETE:** (Inaudible)

10 **COMMISSIONER GARRISON-ENGBRECHT:** Yes.

11 **MS. TOPETE:** (Inaudible)

12 **CHAIR AHERN:** Yes. All right.

13 **DEPUTY DIRECTOR ALLEN:** All right, thank you.

14 **CHAIR AHERN:** Okay. As stated earlier, Action
15 Item #9c has been pulled from the agenda, so we'll move on
16 to Action Item #9d, our Fiscal Year 2024-25 Business Plan,
17 and Jim?

18 **DEPUTY DIRECTOR HASEGAWA:** Thank you. All
19 right, thank you very much. Good morning, Mr. Chairman,
20 Commissioners, Director Chima. It's my honor to present the
21 Business Plan for Fiscal Year 2024-25 to you. Last month, a
22 Draft Plan was presented to you as an informational item to
23 allow time for Commissioners to provide feedback, request
24 additional information, or ask questions. In addition, we
25 did conduct individual briefings with Commissioners who

1 weren't able to attend the May meeting, so they had a chance
2 to see the Draft Plan well in advance of today's meeting and
3 had the same opportunity to ask questions and provide
4 feedback. With today's presentation, there aren't any
5 significant changes from what was presented in the Draft
6 Business Plan; however, there are additional details about
7 the tactics for the upcoming year that I will discuss.

8 This presentation is organized by objective. For
9 each of the five objectives, I'll just give some of the
10 strategies and some of the tactics to support that objective
11 in the upcoming fiscal year. In addition, I will include
12 some of the insights or data presented at the May Commission
13 meeting that are behind these recommendations. I'll
14 conclude my presentation of the Business Plan by describing
15 some of the initiatives that support these objectives by
16 bolstering the Lottery's infrastructure. Now, the Business
17 Plan was developed to enable the Lottery to increase the
18 amount of supplemental funding we provide to California
19 public schools through responsible growth and by following
20 our mission, vision, and values.

21 All right. To start off, I'll go through the
22 first objective, and that is to complete planning and begin
23 celebrating the Lottery's 40th Anniversary. You know,
24 although the first day that the California Lottery began
25 selling tickets was on October 3rd, 1985, the plan will be to

1 extend the anniversary celebration across the year 2025.

2 Now there are many elements still in the planning
3 stages; however, I can discuss some of the tactics
4 associated with our 40th Anniversary. One of the focal
5 points to commemorate the Lottery's 40th Anniversary is the
6 introduction of a special anniversary-themed Scratchers
7 game, slated to launch in January 2025. One of the 40th
8 Anniversary tickets will be at the \$40 price point, marking
9 the first game sold by California that will be above \$30.
10 Now, even with this higher \$40 price point, I do want to
11 share with the Commission that the California Lottery would
12 still be below the average U.S. Lottery in terms of its
13 highest-selling Scratchers ticket.

14 As you can see with the data on the slide, about
15 half of the U.S. jurisdictions have at least a \$50 game in
16 their product portfolio, 22 of the 41 lotteries that are
17 reporting data by price point. Also to support the 40th
18 Anniversary, there will be a \$2 Scratchers game themed
19 around the Anniversary, and this game is also to launch at
20 the end of January.

21 During 2025, other product launches will help
22 support the Anniversary by bringing back some favorites that
23 our players have. There are many other tactics being
24 considered but have not been finalized at this time. This
25 includes possible promotions within our Second Chance

1 Program and perhaps promotions for our retailers. In
2 general, the Anniversary really provides an opportunity to
3 engage with many groups, not just our players at our
4 retailers, but also stakeholders and even Californians who
5 don't play the Lottery. As mentioned at the last meeting,
6 consumer research showed that the nostalgic theme or
7 nostalgic factors really resonate with consumers when
8 consumers think about companies celebrating their
9 anniversary. Additionally, the plan showcases another
10 finding from that research, that having special products
11 tied to the Anniversary is something well liked by
12 consumers.

13 As I mentioned earlier, the 40th Anniversary will
14 be celebrated across the year 2025. The Scratcher Product
15 Plan also includes the launch of a \$25 price-point game, to
16 be introduced at the end of October as our New Year's-themed
17 game titled "2025." So, we'll have both a \$25 and a \$40 new
18 price point this upcoming year.

19 Now, the next four objectives come from our
20 Strategic Plan. The first of these is to expand Scratchers
21 sales by removing barriers to play among infrequent players.
22 Under this objective, one of the Lottery's biggest
23 initiatives is to reposition the Scratchers product category
24 so consumers think more about the fun and play value of the
25 games rather than just thinking about winning prizes in the

1 ticket. This initiative uses a 360-degree approach, from
2 diversifying the product mix, advertising, and
3 communications across all touch points reinforcing this
4 message. We have seen that this effort has indeed begun to
5 shift perceptions about Scratchers and to boost playership
6 of these games.

7 Now, for the Lottery to be successful in
8 increasing play among casual players or expanding the player
9 base in general for Scratchers, it must tackle more than
10 just the perceptual barrier. One of the other key barriers
11 to play among these groups is the fact that they typically
12 don't carry cash with them, as is true of most Californians.
13 And currently, you can only purchase Lottery tickets with
14 cash. As such, that's why a project to develop a plan for
15 creating a pilot program so that some of the Lottery's own
16 self-service machines will accept debit cards for payment
17 will start in the planning phases.

18 I wanted to share some of the information I
19 presented last month about how the Scratchers category
20 repositioning efforts have had an impact on our business.
21 Since this effort began in September of 2021, you can see
22 here that playership of Scratchers has significantly
23 increased. We are now averaging roughly 50 percent of
24 California adults playing Scratchers over the past year, and
25 about a third play on a monthly basis. And with this

1 marketing effort, the number of core players and the number
2 of casual players has increased, as you can see on the right
3 there.

4 And speaking of casual players, as I mentioned
5 earlier, the effort's main goal was to break down barriers
6 for our casual or, you know, occasional players, so that
7 could lead to increased playership and frequency of
8 playership.

9 Since the category repositioning effort began,
10 there is evidence that casual players' perceptions of
11 Scratchers are shifting, resulting in less guilt about
12 spending money on these products. And as these perceptions
13 have shifted to think more about the fun and play value,
14 playership of Scratchers has increased. Both core and
15 casual players have higher monthly play than before the
16 repositioning efforts began.

17 The Scratchers Product Plan is slated to have a
18 total of 53 different games introduced next fiscal year.
19 This is roughly about the same number as last year. Now,
20 with the launch of the \$25 and \$40 price points, the number
21 of \$30 games over the course of the year has been reduced by
22 one.

23 We have seen more and more players shift their
24 purchases to higher price points over the past several
25 years, and as a result, the number of \$5 games to be

1 introduced will be reduced by two this coming fiscal year,
2 while the number of \$10 and \$20 games has been increased by
3 one each.

4 Now, jackpot game sales, which include the two
5 multi-state games, Powerball and Mega Millions, as well as
6 our own in-state SuperLotto Plus game, they enjoyed another
7 spectacular year. Their strong performance is fueled by the
8 many big jackpots in Mega Millions and Powerball. As you
9 can see on this chart, in the current year, we've
10 experienced 13 draws where the jackpot was \$1 billion or
11 higher, and that number is even higher than the phenomenal
12 number we had last year at seven.

13 Now, last month, I presented many of the reasons
14 why we've experienced so many more big jackpots in these
15 games than in the prior years. One such topic I discussed
16 was higher interest rates and how that led to more frequent
17 large jackpots, because as the Federal Reserve began
18 aggressively raising interest rates, what it does do is it
19 leads to what we call higher annuity factors, with the end
20 result that it now takes considerably fewer dollars from
21 sales to fund, say, a \$1 billion jackpot than it did two,
22 three, four years ago.

23 The second factor I talked about was rollover
24 luck, and with rollover luck, as we shared with you, is we
25 are able to quantify, not just talk about, oh, we had a very

1 fortunate year; we were able to provide numbers behind it.

2 A mathematical simulation is one way that we used
3 to determine just how likely it is that our jackpot luck in
4 sales in any given year were to occur. What a simulation
5 does, it compiles sales for each draw and then calculates
6 the probability of it having a jackpot winner from that draw
7 or the jackpot rolling over, and using that probability, the
8 computer decides for that one draw, is it going to be a roll
9 or not? We do this across a thousand possible ways or
10 scenarios that the year could come across, so we do this for
11 a thousand times, and there's a hundred-and-some-odd draws
12 in each year, and that gives us a better picture of how
13 actual sales could perform across lots of scenarios.

14 All right, to get to the answer: so, for this year
15 -- we've now calculated for the current year -- and for the
16 Mega Millions game, rollover luck was at the 78th percentile
17 this year. This means we could have had lower sales about
18 78 percent of the time because we were at the 78th
19 percentile, or we had a 22 percent chance of having even
20 greater jackpots and higher sales. And how that turns out
21 is this year, sales are projected to end the year in Mega
22 Millions with \$705 million here in California. The 50th
23 percentile of rollover luck, which is the median, would be
24 sales of \$569 million, so the difference of \$136 million,
25 that's due to our fortunate rollover luck this current year.

1 And in terms of Powerball, the numbers are even
2 more astonishing. This current fiscal year, Powerball had
3 even better rollover luck, coming in at the 96th percentile,
4 so that's almost as high as you can possibly get. We had
5 only a four percent chance that sales could possibly be, out
6 of thousands of scenarios, higher than what we've
7 experienced this year. We are estimating sales to come in
8 at \$893 million for Powerball. The 50th percentile of
9 rollover luck would have produced sales of \$585 million, so
10 that shows that we enjoyed \$308 million of additional
11 Powerball sales due to the fortunate rollover luck we
12 enjoyed this past fiscal year.

13 Other elements in the plan for the Draw games, the
14 Mega Millions Consortium continues to look at potential
15 enhancements for the Mega Millions game. For Hot Spot, this
16 year's Hot Spot sales will be about \$14 million higher than
17 last year. The change to the Hot Spot prize structure
18 implemented this past November helped contribute to these
19 sales gains. We have seen that the play of the \$2 Bulls-eye
20 feature has increased, as was anticipated with the changes.
21 However, the Business Planning and Research Team will be
22 digging deeper to assess the impact of the Hot Spot change
23 and to determine if there are further actions to get a
24 stronger consumer response to the prize structure change.

25 Last month, I presented data showing how \$1

1 billion jackpots are no longer a novelty, and that results
2 in news coverage, the earned media that we enjoy, declining,
3 as well as seeing sales at comparable jackpot levels being
4 lower in 2023 compared to the sales level we saw in 2022,
5 and so we'll continue to monitor how players respond to
6 jackpot levels in the upcoming year, and will that
7 necessitate changes in our jackpot alert strategies?

8 The California Lottery will continue to explore
9 potential options for enhancing some of its own existing
10 Draw games. Now, growing sales in this category, as I
11 talked about last month, is important since they contribute
12 a significantly larger share of those sales to contributions
13 to Education compared to Scratchers games, and that's because
14 Scratchers games have much higher prize payouts, and so they
15 have a smaller percentage of each sale going to the bottom
16 line.

17 The next business objective is to explore new ways
18 to expand and utilize the Lottery's strong retail network.
19 We discussed last time examples of efforts to diversify the
20 types of locations that are being added to the retail
21 network. There's a totally new trade channel that we are
22 working to recruit, and that's high-end stores connected to
23 electric vehicle charging stations. Obviously, when you
24 charge an electric car, it's something that takes several
25 minutes, and so, an enterprising company has decided they'd

1 build stores for people to buy things in and have food and
2 higher-end items, so we're working to try and gain a
3 presence in that type of new trade channel. Additionally,
4 the team is looking into the expansion of our presence in
5 the sports bar segment for the Hot Spot product, and those
6 are just a couple of examples of the types of ways that we
7 want to look at new types of trade channels to try and
8 recruit.

9 To improve the Lottery's presence in existing
10 locations, a couple of pilot tests for new digital signage
11 will be undertaken. As part of the ITT contract extension,
12 the Lottery will be receiving equipment and support for
13 digital menu boards and digital play centers. One pilot
14 calls for 50 locations receiving a digital play center like
15 the one pictured on this slide. And in terms of talking
16 about the digital menu boards, this is where dual, 49-inch
17 displays, like those shown in these pictures, will be
18 installed in a retailer's high-traffic area, and you can see
19 they are fairly large; they have different types of
20 information, and other states are also piloting these things
21 right now.

22 Now, gaining improved exposure and messaging at
23 retail is very important, since prior research -- some
24 shopper studies that we've done -- has shown that casual
25 players often make that purchase decision to buy a Lottery

1 ticket in the store. Somehow, something triggers them when
2 they're in the store to make that purchase, because, again,
3 they're light, occasional players, so they're not always
4 thinking or seeking out the Lottery.

5 So, something that we found, that, things that
6 trigger a purchase in the store is seeing the tickets
7 displayed, seeing the jackpot sign, seeing others buying or
8 talking about Lottery tickets, so any other additional ways
9 that we can get a prominent message to these casual players
10 is likely to trigger an additional purchase or an impulse
11 buy from them, and that's what this pilot test is going to
12 be done for.

13 So, it is a pilot test. These will be at 50
14 locations. It's not just kind of randomly placing the
15 machines; these will be looked at from a scientific
16 perspective, so that Business Planning and Research will be
17 able to ascertain what is the incremental lift in sales from
18 these, and how long does it take to pay back the investment
19 of getting these signs? And all that will go into
20 determining whether or not we feel that additional signs
21 will really grow not only sales but the bottom line for
22 Education.

23 Last month I shared with the Commission a project
24 that helps retailers track their Scratchers inventory. Our
25 Sales and Marketing, Security and Law Enforcement, and ITSD

1 Divisions have teamed up with IGT to be their first
2 jurisdiction to pilot this Scratcher inventory tool. It's
3 also a loss-prevention tool. Now, what Smart Count, as it's
4 called, what it does is it provides daily tracking of the
5 retailer's activated Scratchers inventory. It also allows
6 the retailers to deactivate their tickets at night after
7 closing. This prevents the unlawful cashing of prizes if
8 tickets are stolen during the evening when that store is
9 closed, as well as sending a real-time, automated alert to
10 our SLED Department.

11 Retailer research was recently conducted by IGT to
12 determine the product enhancements for the Smart Count
13 software. The plan is to expand the pilot once these
14 modifications are made to the Smart Count.

15 Now, as a long-term objective, obviously, there
16 are retailers currently who don't want to sell Lottery
17 tickets, even though we've tried to recruit them, and so, a
18 very large multi-year project will be involved to
19 potentially develop new models for doing business with
20 retailers who currently aren't interested in the Lottery.
21 This type of approach was implemented many years ago, which
22 led to our route sales model.

23 So, the first step in this process is to really
24 better understand what are the barriers for these retailers
25 to selling Lottery tickets so we can develop new ways of

1 working with them so that it becomes much more acceptable in
2 their businesses to sell Lottery tickets. So, the first
3 step is really to talk with the people who recruit
4 retailers, to talk to retailers who aren't interested in the
5 Lottery to really understand what the barrier is of coming
6 to be part of the Lottery network.

7 And last but not least, we want to continue to
8 improve knowledge and perceptions about the Lottery. As you
9 may recall, in January of 2024, the Lottery's Education and
10 Communications Campaign began, using paid media behind a
11 message to educate the public about the Lottery's mission
12 and our public benefit to Californians, the first time we've
13 really done a big paid media effort behind this.

14 The current year's effort first concentrated radio
15 and video efforts in just two specific markets, so we can
16 concentrate those dollars in those markets and also allows
17 Business Planning and Research to kind of measure it a lot
18 more easily when it's concentrated in a couple markets.
19 Those two markets were Fresno and San Diego, and it utilized
20 social media with both static and video assets in both
21 English and Spanish.

22 The plan for Fiscal Year 2024-25 is to scale up
23 the effort, adding some frequency and potentially broadening
24 the reach by potentially adding markets. Also, as the
25 second wave of the campaign concludes, then Business

1 Planning and Research will be undertaking a big effort to
2 really understand how it's been impacting consumer
3 perception and knowledge about the Lottery, and so, we'll be
4 undertaking that effort as well.

5 Beyond these business initiatives that I've just
6 described, there are dozens of equally important projects
7 that help support these business initiatives by bolstering
8 the Lottery's infrastructure. Some of these projects
9 involve implementation efforts, and some are preliminary
10 steps where research, analysis, and planning are undertaken
11 before determining whether an implementation effort is
12 really deemed worthy.

13 Now, all of these in general, what they do is they
14 allow, because we've been having greater sales volume, a
15 larger retail network, we need the Lottery's infrastructure
16 to be strengthened and bolstered to support more retailers,
17 more ticket sales, and all. Some of these efforts improve
18 the customer experience. "Customer experience" sometimes
19 means with our players and sometimes with our retailers, but
20 in many cases, with our internal customers, the people who
21 work inside the building.

22 In many cases, a lot of these initiatives involve
23 the updated upgrading of technology. We need to always be a
24 step ahead of the people who try to infiltrate any business
25 and their technology systems so that we maintain a very

1 secure position, and some of them involve making internal
2 operations more effective and efficient. So, an example
3 that covers multiple of these areas is this project titled,
4 "Modernizing Human Resources Processes With Automation."
5 Many of our processes in our HR Department are very manually
6 based, and as such, they are very labor intensive. This
7 project has been in the works for a couple of years, but
8 some now have actually gone live this fiscal year. So, a
9 form called the "Request for Personnel Action," which any
10 manager or supervisor in the room will definitely know about
11 because you have to fill this out when you want to get your
12 position filled, and so forth, so this RPA, as it's called,
13 is one of the things that's gone live in an automated
14 fashion, so it allows it to be tracked; you have reminders
15 to be put in, and there are many places where different
16 signatures have to happen. Another one that's gone live is
17 "Position Control," knowing how many positions you can fill
18 and how many are vacant, and so forth, at any single point
19 in time.

20 And others that are being worked on but aren't
21 live right now that are part of this first phase include
22 items such as Performance Evaluations, Employee Compliance
23 forms like Outside Employment Approvals or Emergency Contact
24 Form updates, very important pieces of information. Now,
25 with all these automated processes, it allows them to

1 interact with one another rather than to be separate
2 physical pieces of paper, and essentially, it'll eventually
3 be able to help build a database. So, that's just one
4 example, and that covers, as I said, many of these points.
5 It really improves the customer experience, and in this
6 case, as a manager, in filling out these things, it really
7 improves the experience I have in getting these forms rather
8 than having a manual process. It really does make our
9 internal operations definitely more efficient and effective
10 to solve these things. And this is an example of many of
11 the infrastructure-type projects that have been going on.

12 As I mentioned, we have a number that deal with
13 our data as well, because we do have a lot of data at the
14 Lottery. Some are in the area of updating or upgrading our
15 technology, because obviously with the data, we have to have
16 the utmost security in mind to protect that data, and you're
17 always, as I said, having to be one step ahead of the people
18 who are trying to infiltrate a company, and that's why
19 there's the need to update and upgrade technology.

20 As a recap, what I want to talk about is that the
21 Business Plan overall, between its Business Objectives as
22 well as the infrastructure projects, what it allows us to do
23 at the Lottery is to generate increased sales and
24 contributions to Education, not just in the upcoming year,
25 as you'll see in the presentation from Nick, but there are

1 initiatives that allow for future growth beyond just the
2 current fiscal year, and as I said, you'll see the type of
3 sales growth that we'll be seeing next year in the upcoming
4 presentation from Nick on the Budget. And at this time, I
5 can answer any questions about the Fiscal Year 2024-25
6 Business Plan.

7 **CHAIR AHERN:** Commissioners, any questions?

8 **COMMISSIONER ALVIDREZ:** No question, but a
9 comment. Thank you so much for this comprehensive
10 understanding of what the proposed Business Plan is. Just a
11 comment on your retail initiatives: As you explore retail
12 initiatives and those expanded opportunities with other
13 retailers, I'm really looking forward to the results of your
14 research that will identify what those barriers to doing
15 business with the Lottery are; that'll be very interesting
16 to know where retailers fall on the spectrum as to why they
17 wouldn't do business with the Lottery, so we're really
18 looking forward to hearing those results.

19 **DEPUTY DIRECTOR HASEGAWA:** Thank you.

20 **CHAIR AHERN:** Okay?

21 **COMMISSIONER MILLS:** I do have a question, and I
22 appreciate my colleague here being so positive because I
23 feel I'm a Negative Nellie today. I don't mean to be, but I
24 have a question about the comments about the modernization
25 of the back office and specifically, the examples you gave

1 around automating some HR functions, and honestly, it feels
2 like really behind to me, and I'm wondering what are some of
3 those barriers that we're facing in not being on par with
4 where technology is, or how do we get to a place where we're
5 not catching up on back office technology, but we're
6 actually being proactive and looking ahead, and I'm thinking
7 about AI is here, and it's going to continue. Are we
8 looking at things like that? Because the more efficient we
9 can be in our back office, the more funding we're going to
10 have for Education.

11 **DEPUTY DIRECTOR HASEGAWA:** Yes, the reason why
12 you might feel we're behind is that there was a time with
13 the Lottery we weren't at \$9 billion in sales and \$2 billion
14 for contributions to Education. The budget a dozen years
15 ago, for example, prior to the AB 142 that allowed us to
16 increase prize payouts, didn't allow as much administrative
17 budget to be spent on infrastructure-type projects. We
18 would have a lot of programs just to maintain or increase
19 our contributions to Education. Now, with the enhancements
20 of our sales, the enhancements of our products that have
21 happened over the past decade, it allows for a lot of
22 projects in the infrastructure area to develop and flourish,
23 and that's the reason why. So, with the current sales
24 levels and so forth, we do have more dollars to invest in
25 those things in infrastructure, and that's why there are

1 many of these projects, and some of them are multi-year
2 projects to actually happen.

3 **COMMISSIONER MILLS:** Okay. I mean, just a last
4 comment. It's not just sales that drives contribution to
5 Education, it's also the efficiency and the cost savings. I
6 would just encourage us to think equally about those two
7 things because they both work to drive the contribution to
8 Education. Thank you.

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

10 **CHAIR AHERN:** Any other questions or comments?
11 Okay, so the staff is recommending the Commission approve
12 the Lottery Fiscal Year 2024-25 Business Plan. Does any
13 member of the public want to address the Commission at this
14 time regarding Action Item #9d? Hearing none, do I hear a
15 motion to approve Action Item #9d, Fiscal Year 2024-25
16 Business Plan?

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

19 **CHAIR AHERN:** Okay, motion to approve the
20 Business Plan; is there a second?

21 **COMMISSIONER ALVIDREZ:** Second.

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

24 **MS. TOPETE:** (Inaudible).

25 **COMMISSIONER MILLS:** Yes.

1 **MS. TOPETE:** (Inaudible).

2 **COMMISSIONER ALVIDREZ:** Yes.

3 **MS. TOPETE:** (Inaudible).

4 **COMMISSIONER GARRISON-ENGBRECHT:** Yes.

5 **MS. TOPETE:** (Inaudible).

6 **CHAIR AHERN:** Yes. Okay. Thank you very much,

7 Jim. Okay, now we move on to our Budget, and Nick, thank

8 you very much.

9 **DEPUTY DIRECTOR BUCHEN:** Thank you. So, I'm here

10 to present the Lottery's Fiscal Year 2024-25 Budget for your

11 approval.

12 **CHAIR AHERN:** And we're almost approved before

13 you spoke.

14 **DEPUTY DIRECTOR BUCHEN:** Almost got (inaudible).

15 The Lottery's Budget does not include any funding from the

16 State or federal governments and is solely funded by our

17 operations, so the source of revenue being the sale of

18 Lottery tickets. To ensure that funding for Education is

19 maximized annually, we zero-base the Lottery's Operational

20 Expense Budget, certify all included costs are necessary and

21 align with our Business Operations, and we confirm that

22 funded initiatives align with the fiscal year's Business

23 Plan and the latest approved strategic direction. Although

24 my presentation is a fairly high-level summary of the major

25 components of the budget and the reasons for the year-over-

1 year funding changes, I want you to feel confident voting on
2 the budget, knowing the level of detail, analysis, and
3 scrutiny that goes into preparing the Lottery's annual
4 financial plan.

5 So, this chart and the others I will cover today
6 compare our estimated revenues and expenditures for the
7 2024-25 Fiscal Year through our estimate of how we will end
8 this current fiscal year on June 30th. There's way too much
9 detail to take in on this slide, so I'll walk through each
10 of the main sections of the budget separately. As I go
11 through each section, I will summarize the changes from the
12 Draft Budget I presented last month, and just a reminder
13 that all dollars in these charts are in thousands. As you
14 are aware, the budget is a basic formula, comprised of four
15 major components: ticket sales revenue minus the associated
16 prize expense minus our administrative expenses equals our
17 contribution to Education. For the first of those major
18 elements, Sales, you can see at the bottom of the middle
19 dollar column we are projecting a total of \$9.1 billion in
20 sales revenue for Fiscal Year 2024-25. The bottom of the
21 far-right column shows that this is a decrease of \$263
22 million from the total sales level with which we are
23 projecting to end the current fiscal year, and this
24 represents a 2.8 percent decrease.

25 As I explained in last month's Draft Budget

1 presentation, the year-over-year decrease is primarily due
2 to the much-better-than-anticipated performance we had in
3 Mega Millions and Powerball in the current fiscal year, on
4 which I'll provide more detail in a moment.

5 Starting at the top line with Scratchers, the
6 Fiscal Year 2024-25 Budget includes a sales goal of \$6.83
7 billion. This represents an increase of \$180 million over
8 the current fiscal year and is driven by several factors,
9 including new \$25 and \$40 price-point games, e-product
10 offerings, such as 40th Anniversary games and a planned
11 Monopoly game, and continuation of the Lottery's Scratchers
12 category repositioning effort, which emphasizes the fun and
13 entertainment of Scratchers games.

14 Looking at the next two lines, the Budget includes
15 a sales goal of \$580 million for Powerball and \$595 million
16 for Mega Millions in Fiscal Year 2024-25. The Powerball
17 goal represents a decrease of \$313 million, and the Mega
18 Millions goal represents a decrease of \$110 million from the
19 level at which we are projecting to end the current fiscal
20 year. These year-over-year decreases are due to the fact
21 that there were 13 different draws for which the advertised
22 jackpot in these games was \$1 billion or more in this
23 current fiscal year.

24 Having this many jackpots at extraordinarily high
25 levels is statistically improbable and causes our sales in

1 these games to grow exponentially. We cannot assume we will
2 have the same amazing luck in these games in the coming
3 fiscal year. As I indicated in my Draft presentation last
4 month, the sales goal for both Powerball and Mega Millions
5 in the coming fiscal year was developed using simulation
6 models that considered factors such as jackpot fatigue and
7 looming interest rate changes that will impact the number of
8 rolls required to reach high advertised jackpot amounts.
9 The sales projection in these games for the coming fiscal
10 year assumed the 50th percentile for rollover luck, which
11 means that half of the scenarios in the simulation would
12 yield more draw-to-draw rolls, leading to higher jackpots,
13 and half of the scenarios would be less favorable in terms
14 of rollovers and high jackpots.

15 And moving to the next line, higher-than-expected
16 performance in this current fiscal year also explains the
17 projected year-over-year decrease in SuperLotto Plus, though
18 on a much smaller scale than with the multi-state games.
19 The Fiscal Year 2024-25 sales goal of \$240 million for
20 SuperLotto Plus represents a decrease of \$26 million from
21 the current fiscal year. The SuperLotto Plus jackpot
22 reached \$82 million in the second month of this current
23 fiscal year, and prior to this, the last time the SuperLotto
24 Plus jackpot crossed the \$80 million threshold was in 2008.

25 Moving to the next line, the 2024-25 Budget

1 includes a sales goal of \$438 million for Hot Spot. This
2 represents an increase of \$13.2 million over the current
3 fiscal year and is primarily due to reflecting a full fiscal
4 year of the initiative that significantly increased prize
5 payout of the \$2 Bulls-Eye option, while slightly lowering
6 \$1 base Hot Spot payouts. This initiative became effective
7 in the second quarter of this current fiscal year and
8 provides a greater incentive to play Hot Spot's Bulls-Eye
9 feature.

10 And lastly, the Daily Games, comprised of Fantasy
11 5, Daily 3, Daily 4, and Daily Derby, have a combined sales
12 goal of \$417 million for Fiscal Year 2024-25. This is a
13 decrease of \$7.2 million from the projected combined current
14 year sales in these games and is primarily due to better-
15 than-anticipated performance we achieved in Fantasy 5 in
16 this current fiscal year; it's not expected to continue in
17 the coming fiscal year.

18 Compared to the sales projection that I presented
19 in the Draft Budget last month, the most significant changes
20 were increases in the Scratchers estimate for both the
21 current fiscal year and coming fiscal year. Specifically,
22 for Fiscal Year 2024-25, the Scratchers sales goal increased
23 by \$270 million, and the 2023-24 estimate increased by \$114
24 million compared to what I presented last month. There was
25 also some relatively minor refinement to the current year

1 sales projection for most of the other games, but the most
2 significant change from the Draft Budget is a \$60 million
3 decrease in projected current year Mega Millions sales.
4 This is because the jackpot was assumed to keep rolling
5 through the remainder of this current fiscal year but was
6 hit about a week-and-a-half after the May Commission
7 Meeting.

8 Before moving on to the next section, it's
9 important to highlight that the projected year-over-year
10 growth we are expecting is in Scratchers and Hot Spot, which
11 we have more control over as compared to some of our other
12 products. For example, we are better able to influence
13 sales levels in these games by tweaking prize payouts.
14 Conversely, the product categories with the most significant
15 projected year-over-year decreases are the ones for which
16 performance is unpredictable due to the luck of the draw and
17 the nature of the games. I also want to caution that
18 there's a fair amount of uncertainty in our revenue
19 projections for the coming fiscal year due to the high
20 levels of inflation still facing consumers.

21 The next major area of the Budget is Prize
22 Expense, which is projected to total \$6.02 billion in 2024-
23 25. This is a decrease of \$107.8 million from the current
24 fiscal year estimate and is driven by the overall year-over-
25 year decrease in sales. Compared to the Draft Budget I

1 presented last month, Prize Expense for 2024-25 is estimated
2 to be \$172.8 million higher because of the increased
3 Scratchers sales projection.

4 Now, the Lottery has a policy requiring the
5 Director to determine that prize payout levels across all
6 games have been optimized for the coming fiscal year.
7 Because Scratchers sales account for more than 70 percent of
8 our total revenues, and the Lottery has more direct
9 influence on the sale of these tickets, a team comprised of
10 Business Planning and Research, Sales and Marketing, and
11 Finance staff primarily considered several product plan
12 scenarios for Scratchers with varying price point
13 assumptions to identify the optimal mix yielding at the
14 highest estimated contribution to Education.

15 The combined impact of this effort is shown on
16 this slide with a total projected Prize Expense for Fiscal
17 Year 2024-25, representing 66.2 percent of total projected
18 sales. This is within the range of 65 percent to 67 percent
19 that was recommended as being optimal in the analysis that
20 was conducted for the Lottery in late 2020. So, with this,
21 the Director has determined that prize payout levels across
22 all games have been optimized for the coming year.

23 You can also see on this slide that our current
24 year Prize Expense is estimated to be 65.4 percent of the
25 total current year sales projection, and this is also within

1 the optimal range. The reason the current year Prize
2 Expense is closer to the bottom of the optimal range is due
3 to the much-higher-than-anticipated sales we had in Mega
4 Millions and Powerball, which have lower prize payouts
5 compared to some of the other games.

6 And before getting into our Administrative
7 Expenses, I want to cover a couple of slides that Jim
8 presented in last month's meeting that the Commission
9 requested to be updated to include estimates for the coming
10 fiscal year.

11 **COMMISSIONER MILLS:** Nick, before you move on to
12 the next slide, can you remind us what the Prize Expense
13 Savings line is?

14 **DEPUTY DIRECTOR BUCHEN:** That represents unclaimed
15 Scratchers prizes that are low-tier, so the high-dollar
16 Scratchers that go unclaimed show up in the bottom line
17 later in the budget, but the lower-value prizes that go
18 unclaimed in Scratchers don't go directly to Education with
19 all the other unclaimed prizes, so it's treated a little
20 differently.

21 **COMMISSIONER MILLS:** Okay, thank you.

22 **DEPUTY DIRECTOR BUCHEN:** So, this slide shows our
23 sales for the last several fiscal years, including our
24 estimate for how we will end this current fiscal year, as
25 well as the Sales Goal in the budget for Fiscal Year 2024-

1 25. The last three completed fiscal years have seen sales
2 far exceed pre-pandemic levels, and this chart shows we're
3 projecting we'll continue this trend in both the current
4 fiscal year and in 2024-25.

5 In this chart, this slide compares the share of
6 sales to the estimated share of contribution to Education
7 for each of our product categories. This shows that our
8 Draw games yield a greater share of contribution to
9 Education than their proportionate share of sales, since the
10 prize expense in these games is relatively lower. And
11 conversely, Scratchers have accounted for a much greater
12 proportion of our sales than their respective share of their
13 contribution to Education, since prize expense is relatively
14 higher. A key takeaway of this chart, however, is that it
15 demonstrates the importance of the Lottery having a diverse
16 portfolio, with games and price points that appeal to a wide
17 mix of consumers.

18 **COMMISSIONER MILLS:** Nick, thank you for bringing
19 this forward. Just one question I wanted to confirm. So,
20 our assumption in the budget related to the rollover luck
21 that Jim talked to us about earlier is at 50 percent, right?

22 **DEPUTY DIRECTOR BUCHEN:** Correct.

23 **COMMISSIONER MILLS:** Okay.

24 **DEPUTY DIRECTOR BUCHEN:** So, it's neither
25 conservative nor aggressive; it's by definition --

1 **COMMISSIONER MILLS:** The middle of the road.

2 **DEPUTY DIRECTOR BUCHEN:** Yep.

3 **COMMISSIONER MILLS:** Okay. Thank you.

4 **DEPUTY DIRECTOR BUCHEN:** Okay, I'll now move on to
5 our Administrative Expenses, which the Lottery Act capped at
6 13 percent of total sales.

7 The first area of Administrative Expense is
8 Retailer Compensation, which reflects the commissions we pay
9 to our retailer partners for selling Lottery tickets,
10 cashing eligible winning tickets, redeeming free ticket
11 prizes and replays, and selling certain tickets with very
12 high prizes. Total Retailer Compensation is estimated to be
13 \$612.2 million in Fiscal Year 2024-25, and this is a
14 decrease of \$30.2 million from the current year projection
15 and results from the estimated year-over-year decrease in
16 sales.

17 Also included within Administrative Expense and
18 shown on this slide is our Gaming Costs, which are used to
19 pay our contractual gaming system provider and to print and
20 distribute Scratchers tickets. These costs are estimated to
21 total \$150.5 million in the coming year, which is a decrease
22 of \$4.9 million from the current year projection.

23 As with Retailer Compensation, the estimated year-
24 over-year decrease in Gaming Costs is primarily driven by
25 the decreased sales projection. However, this decrease is

1 partially offset by a projected increase in Scratchers
2 ticket, delivery, and support costs due to the estimated
3 year-over-year increase in Scratchers sales.

4 Compared to the Draft Budget I presented last
5 month, Retailer Compensation and Gaming Costs are projected
6 to be \$14.8 million higher, and this is attributable to the
7 increased Scratchers projection.

8 **COMMISSIONER MILLS:** Nick, before you move on from
9 that one, can you remind us what that negative number is,
10 the Retailer Administrative and Gaming Fee?

11 **DEPUTY DIRECTOR BUCHEN:** Yes. So, we charge fees
12 to our retailers to display monitors in their locations
13 that --

14 **COMMISSIONER MILLS:** So, the retailers have to pay
15 to receive and display --

16 **DEPUTY DIRECTOR BUCHEN:** Yes.

17 **COMMISSIONER MILLS:** -- the monitors. Okay.

18 **DEPUTY DIRECTOR BUCHEN:** Correct.

19 **COMMISSIONER MILLS:** Thank you.

20 **DEPUTY DIRECTOR BUCHEN:** Uh-huh. The final area
21 of Administrative Expense is Operating Costs, which are
22 estimated to total \$420.3 million in 2024-25.

23 Excluding the Reserves, which I'll talk about
24 later, the year-over-year increase in Operating Costs is
25 projected to be \$20.8 million, and I'll detail this year-

1 over-year increase by going over this entire section line by
2 line.

3 **COMMISSIONER MILLS:** I'm sorry. Nick, before we
4 move into this, so, I'm having a little bit of a disconnect
5 with -- I heard one of the strategies is that we're trying
6 to get more retail -- we're purchasing these large
7 systems --

8 **DEPUTY DIRECTOR BUCHEN:** Uh-huh.

9 **COMMISSIONER MILLS:** -- and we want more retailers
10 to display them, and then we charge for them. Can you just
11 help us understand why we're charging for them, or how that
12 connects?

13 **DEPUTY DIRECTOR BUCHEN:** I don't believe we're
14 charging for the (inaudible).

15 **COMMISSIONER MILLS:** Okay. Uh-huh. Okay. I see.
16 Okay, thank you. Promotional -- yeah. Okay, thank you.

17 **DEPUTY DIRECTOR BUCHEN:** And the sell to the
18 retailer is by having that extra monitor and paying us for
19 it, they're actually going to earn more in sales commissions
20 to offset that fee.

21 **COMMISSIONER MILLS:** That makes sense. Okay.
22 Thank you.

23 **DEPUTY DIRECTOR BUCHEN:** So, I'll spend the most
24 time on the first item within Operating Costs, which is
25 Personnel Services, representing the salary and benefit

1 costs of all Lottery employees, including temporary help and
2 overtime.

3 Personal Services costs for Fiscal Year 2024-25
4 are projected to increase by \$10.1 million over the current
5 fiscal year. This year-over-year growth is driven by a
6 general salary increase negotiated last year, and it becomes
7 effective on July 1st; the assumption that we'll do a better
8 job of filling our vacancies in the coming year; the
9 inclusion of eight new proposed positions beginning in
10 Fiscal Year 2024-25 that are needed to address critical
11 operational needs; and the conversion of several permanent,
12 intermittent positions to full-time positions to meet
13 operational needs in the field. Approximately \$3.7 million
14 of the year-over-year increase on this line is to fund the
15 general salary increase. An estimated \$2.5 million is due
16 to the assumption that we'll decrease our vacancy rate from
17 approximately 16 percent to 14 percent. A little under
18 \$600,000 of the increase reflects the conversion of
19 permanent intermittent positions to full-time permanent, and
20 \$829,000 is needed to fund the eight new positions, which I
21 will now go over.

22 Three of these positions are in the Finance
23 Division, with two of these being needed for the Paying
24 Claims of the District Office Program. This program allows
25 us to issue checks on the spot to claimants with eligible

1 winning prizes of \$1,000 and below, and specifically, we
2 need one additional Supervisor position in the Santa Fe
3 Springs District Office and one additional staff position in
4 the Milpitas District Office to meet customer demand in
5 these offices.

6 The remaining proposed position in Finance is a
7 new Supervisor needed in the Lottery's Accounting Unit to
8 manage the Accounts Receivable, Cashiering, and Travel
9 Sections, and this would more appropriately distribute the
10 workload in Accounting and allow for more focused staff
11 development and help ensure gaps in processes are identified
12 and mitigated.

13 **COMMISSIONER ALVIDREZ:** Nick, before you go on,
14 quick question, sorry. On those vacancy rate pieces, is
15 that 16 percent vacancy rate, or what will be now 14 percent
16 once we fill the eight versus the 12 slots, is that in line
17 with the vacancy rate for other State departments and
18 agencies? What are those average vacancy rates? Are we
19 higher, lower?

20 **DEPUTY DIRECTOR BUCHEN:** It's actually lower. The
21 most recent data I have, the Statewide average was over 20
22 percent, so, we're actually doing better than the Statewide
23 average, but we still have room to improve, and some of what
24 -- it goes into the assumption that we'll do a better job,
25 is the example Jim gave of automating certain Human

1 Resources functions. It makes it more efficient for us to
2 actually fill our vacancies.

3 **COMMISSIONER ALVIDREZ:** Thank you.

4 **DEPUTY DIRECTOR BUCHEN:** Three of the new
5 positions are in the Information Technology Services
6 Division. One of these is needed to provide technical and
7 operational support for the Lottery's physical security
8 system, consisting of over 1,100 devices at the Lottery's 12
9 facilities. One of the positions is needed to plan,
10 coordinate, and direct the day-to-day activities of six
11 Information Technology and Administrative staff to support
12 the operational oversight in the areas of IT Procurements,
13 Contracting, Administrative Services, and Asset Management,
14 and the remaining position is needed to increase capacity to
15 deliver new public website features and to support
16 technology implementations and daily operational needs of
17 the Lottery's mobile app.

18 And lastly, two of the new positions are in the
19 Security and Law Enforcement Division and are being
20 converted from limited term to permanent, since the Theft
21 Unit has an ongoing need to provide 24 X 7 X 365 coverage,
22 the rotational shifts to respond timely to reported
23 incidents of stolen Scratchers tickets to prevent the
24 cashing of those tickets.

25 It's important to note that the Lottery's total

1 expense for Personnel Services in Fiscal Year 2024-25,
2 including funding for the eight new positions, is estimated
3 to be just 1.6 percent of our projected revenues for Fiscal
4 Year 2024-25. This highlights our operational efficiency.

5 Moving on to the next line within Operating Costs,
6 the Marketing Budget Plan reflects an estimated year-over-
7 year decrease of \$4.4 million. The largest driver of this
8 decrease is shifting funding from the Marketing Program to
9 Contractual Services to continue the Lottery's Education
10 Campaign that is designed to uplift the Lottery's mission
11 and position the Lottery in a more favorable light among
12 California adults.

13 In the current and previous fiscal years, this
14 effort was handled through one of the Lottery's existing
15 advertising agencies. As discussed when I presented the
16 Draft Budget last month, we instead propose having a
17 dedicated contract outside of Marketing for this effort
18 beginning in the coming fiscal year to help boost public
19 confidence and support and ultimately generate more
20 supplemental funds for public schools.

21 Moving down to the Contractual Services line, we
22 are projecting a year-over-year increase of \$15.3 million.
23 The single largest component of this increase is the shift I
24 just described from the Marketing Program to have a
25 dedicated contract to continue the Lottery's Education

1 Campaign. Another driver of the year-over-year increase
2 reflected on this line is funding to enable our public
3 website contractor to elevate the Lottery's communication
4 and digital presence by implementing website design,
5 performance, and operations enhancements and improving
6 security. And other factors leading to the increased
7 Contractual Services costs in the coming year are continued
8 investment to automate certain Lottery Human Resources
9 functions, additional funding to address the Lottery's
10 Return to Office needs, and increased costs for Software
11 Support and Services.

12 Moving to the next line, Depreciation Costs, will
13 have a projected year-over-year decrease of \$1.7 million.
14 This is primarily due to us retaining equipment, such as
15 jackpot signs and vending machines beyond the end of their
16 anticipated useful life.

17 And next is Operating Expense, which includes
18 typical overhead costs, such as Telecom, Expendable
19 Equipment, Facility Maintenance and Operations, Vehicle
20 Operating Costs, and Utilities. And this reflects an
21 estimated year-over-year increase of \$1.5 million. This is
22 primarily due to a higher assessment by the Department of
23 Finance to pay a pro rata share of indirect costs incurred
24 by Central Service agencies such as the State Controller's
25 Office and the California Department of Human Resources.

1 This increase is partially offset by decreased costs
2 resulting from the pending completion of the multi-year
3 remodel construction project of the Lottery's Northern
4 Distribution Center.

5 And the last two items within Operating Costs are
6 the Reserves. In the current year, we've zeroed out the
7 Reserves, since the items that we've funded from them are
8 already reflected within the expenditures in the other
9 Operating Costs lines that appear above the Reserves. For
10 Fiscal Year 2024-25, we are again maintaining a \$5 million
11 reserve for insurable risk to cover fiscal exposure for the
12 areas of our organization that we are self-insuring.

13 And as shown on the next line, the 2024-25 budget
14 also includes \$84.2 million for the Administrative Spending
15 Reserve. This amount is derived by formula and is 13
16 percent of our total sales projection minus the sum of all
17 administrative expense items above this line, including the
18 Retailer and Gaming costs from the prior slide. This
19 Administrative Spending Reserve acts as a safeguard against
20 uncertainties, such as if our sales do not come in as
21 projected, and it allows us to maintain operations when
22 unanticipated needs arise during the fiscal year.

23 This is especially important since in zero-basing
24 the Lottery's budget, we include only funding that is
25 certain to be needed. We are maintaining an itemized list

1 of funding requests that may or may not happen, such as
2 possible additional Scratchers ticket printing and licensing
3 costs and have prioritized them to be funded from the
4 Administrative Spending Reserve to the extent that they come
5 to fruition during the course of the fiscal year.

6 Looking at the bottom line, the total
7 Administrative Expenses, which is the sum of Retailer
8 Compensation, Gaming Costs, and Operating Costs, including
9 both of the Reserves, is projected to be \$1.183 billion in
10 2024-25, and this is precisely 13 percent of the \$9.1
11 billion in projected sales. Pursuant to the Lottery Act,
12 which prevents us from retaining earnings from year to year,
13 any unspent administrative funds below the 13 percent cap,
14 including unspent funds within both reserves, will be
15 transferred in their entirety to Education.

16 It's important to highlight, though, the Lottery
17 typically spends well below the cap each year and has
18 transferred almost \$1.6 billion in administrative savings to
19 Education to date. Compared to the Draft Budget I presented
20 last month and excluding the Reserves, total Operating Costs
21 for Fiscal Year 2024-25 are projected to be \$12.6 million
22 higher. This primarily reflects additional investment in
23 the Marketing Budget Plan.

24 I've spent a lot of time talking about our
25 administrative costs, so I think it's helpful to provide

1 some context. Assuming the Reserves remain unspent, adding
2 up all but the purple slice of this pie, reflects that
3 almost 80 percent of our projected administrative expenses
4 for Fiscal Year 2024-25 is comprised of Retailer
5 Compensation, Gaming Expenses, and Marketing Costs, and
6 these three components of our administrative expenses are
7 unique to our business operations and directly influence our
8 sales and contribution to Education.

9 Our Other Operating Costs, which is our overhead,
10 are estimated to account for just over 20 percent of our
11 total administrative expense and only 2.4 percent of our
12 projected revenues for the coming fiscal year. This
13 highlights that we do a tremendous job of managing the costs
14 within our control, which enables us to maximize our
15 contribution to Education.

16 **COMMISSIONER MILLS:** Nick, before we go to the
17 punch line, which is amazing, can I ask about Operating
18 Costs? I know there's been a recent initiative around
19 Return to Office, and we talked a little bit about it last
20 time; it still may be still new, but I wondered if you could
21 talk a little bit about -- do you anticipate any sort of
22 financial impact from getting people back in the building,
23 or will there be other offsets of costs we were incurring
24 for being remote?

25 **DEPUTY DIRECTOR BUCHEN:** The largest impact that

1 we're tracking is additional IT equipment such as monitors,
2 keyboards, mice, and also, prior to the pandemic, we were
3 already exceeding capacity of this Headquarters Building, so
4 we're likely going to be exploring some cubicle
5 reconfigurations, so those are the two main costs.

6 **COMMISSIONER MILLS:** Okay, and so we should
7 anticipate that those may be additional costs that could
8 come in this year and come out of that Administrative
9 Reserve?

10 **DEPUTY DIRECTOR BUCHEN:** So, actually, we built in
11 some funding in Operating Costs for those two items --

12 **COMMISSIONER MILLS:** Okay (inaudible).

13 **DEPUTY DIRECTOR BUCHEN:** -- in the 2024-25 budget.

14 **COMMISSIONER MILLS:** Okay, great. Thanks. On to
15 the punch line.

16 **DEPUTY DIRECTOR BUCHEN:** Okay.

17 **COMMISSIONER ALVIDREZ:** No, you're fine. Excuse
18 me, I'm sorry to interrupt. Can you go back to the previous
19 slide? Here, where you talk about where it's the Reserves
20 are zeroed out for 2023-2024 and prior, right?

21 **DEPUTY DIRECTOR BUCHEN:** Uh-huh.

22 **COMMISSIONER ALVIDREZ:** But yet we've added some
23 money for those, what is it, Operational Costs that aren't
24 covered.

25 **DEPUTY DIRECTOR BUCHEN:** Right, so an example of

1 that is in the first quarter of this current fiscal year,
2 when the Commission approved last year's budget, we didn't
3 factor in a General Salary Increase into Personnel Services
4 because those negotiations were still going on.

5 **COMMISSIONER ALVIDREZ:** Got it.

6 **DEPUTY DIRECTOR BUCHEN:** So, when the budget
7 passed, then once those negotiations were finished, we
8 transferred from the Administrative Spending Reserve in this
9 current fiscal year to add to Personnel Services. So, the
10 \$134.8 million that shows in 2023-24 for Personnel Services
11 reflects that we've already transferred from the Reserve for
12 that. So, that's why we zeroed them out.

13 **COMMISSIONER ALVIDREZ:** Thank you. Got it.

14 **DEPUTY DIRECTOR BUCHEN:** Okay. So, on to the
15 reason we exist. Sales minus Prize Expense minus
16 Administrative Expenses actually equals our net Operating
17 Income, and there are a few additional items that determine
18 the final Contribution to Education amount. Specifically,
19 both Unclaimed Prizes and Interest Earnings within the State
20 Treasury are mandated to be transferred directly to
21 Education. In addition, any unspent funds within both
22 Reserve items will also be transferred to Education. So,
23 assuming both Reserves remain unspent, the total
24 Contribution to Public Education is estimated to be more
25 than \$2.08 billion in Fiscal Year 2024-25. This represents

1 a decrease of \$177.4 million from the amount of funding we
2 were estimated to provide to Education in this current
3 fiscal year and is primarily due to the odds-defying
4 performance we had in Mega Millions and Powerball in the
5 current fiscal year.

6 The year-over-year decrease shouldn't take
7 anything away from the impressive performance that we are
8 projecting for the coming year. In fact, the Sales Goal of
9 \$9.1 billion and the projected Contribution to Education of
10 more than \$2.08 billion are both the highest levels included
11 in the Lottery's budget to date and are both firsts in terms
12 of crossing the \$9 billion and \$2 billion thresholds,
13 respectively.

14 The budget projecting a Contribution to Education
15 of more than \$2 billion is particularly important; it's one
16 of the Lottery's strategic financial goals is to grow sales
17 so that contributions to Education consistently exceed \$2
18 billion without relying on any extraordinary circumstances
19 to reach those levels. And compared to the Draft Budget I
20 presented last month, the projected Contribution to
21 Education for Fiscal Year 2024-25 is \$69.8 million higher
22 and is primarily due to the increased Scratchers estimate.

23 And to provide better context to our growth
24 trajectory, when comparing our Estimated Sales and
25 Contribution to Education for Fiscal Year 2024-25 to what

1 was budgeted in this current fiscal year, you can see we are
2 projecting significant year-over-year growth in both areas.

3 And I'm pleased to report that this budget meets
4 the Lottery Act's requirement that the Lottery's net
5 revenues allocated to Education, as reflected in the
6 Lottery's mission-approved budget be at least as much as
7 were allocated on average in the prior five fiscal years.
8 Including our projected net revenues for the current fiscal
9 year and excluding Unclaimed Prizes and Interest Earnings in
10 all five years, the orange-shaded row on this slide, or
11 green -- I can't tell what color that is -- it reflects the
12 average of the previous five fiscal years as \$1.931 billion.
13 And again, excluding Unclaimed Prizes and Interest Earnings
14 and assuming the Reserves remain unspent, our projected
15 Contribution to Education for Fiscal Year 2024-25 is \$1.986
16 billion.

17 This would exceed the five-year average by more
18 than \$55 million. Note that Fiscal Year 2019-20 is the
19 first year included in this current five-year average
20 calculation, and that year's Contribution to Education was
21 greatly impacted by the sharp decline in sales we
22 experienced at the onset of the pandemic, along with
23 unusually low jackpots we had in Mega Millions and Powerball
24 that fiscal year. I therefore want to caution that when the
25 2019-20 Fiscal Year drops out of the five-year average

1 computation when I present the Lottery's budget a year from
2 now, we might not be in this same position.

3 **CHAIR AHERN:** Very well put.

4 **DEPUTY DIRECTOR BUCHEN:** And my final slide today
5 shows how our Sales and Contribution to Education have
6 trended over the last 23 completed fiscal years, and this
7 chart also includes our projection of how we will end the
8 current fiscal year, as well as the proposed budget for the
9 coming year, assuming the Reserves remain unspent.

10 This chart accounts for the different scales
11 between our revenues and contribution to Education. The
12 gold bars reflect our Sales Revenues, with the associated
13 scale showing on the left side of the chart, and the blue
14 line reflects our Contribution to Education, with the
15 associated scale showing on the right side of the chart.
16 The black vertical line on this chart differentiates between
17 before and after AB 142 was fully implemented.

18 You can see that not only have our sales risen
19 sharply since AB 142 was enacted, but more importantly, our
20 Contribution to Education has continued to increase, which
21 was the whole point of AB 142. And even though we are
22 estimating our Sales and Contribution to Education in Fiscal
23 Year 2024-25 will be less than what we experienced in this
24 current fiscal year, you can clearly see that our projected
25 Sales and Contribution to Education are still trending

1 upwards, especially as compared to the years prior to AB
2 142.

3 And with that, I'd quickly like to recognize my
4 team that builds the Lottery's budget and tracks our
5 financial performance throughout the year. This team is
6 comprised of our Budget Officer Bret Grosso and six
7 analysts: Danae, Britt, Larry, Ruth, Francisco, and Greg.
8 Thanks to each of them for their tireless and excellent work
9 on this budget. And with that, I ask for your approval of
10 the Lottery's 2024-25 Fiscal Year Budget.

11 **CHAIR AHERN:** All right, thank you very much --
12 very detailed and informative. Do any of our Commissioners
13 have any questions regarding their budget?

14 **COMMISSIONER ALVIDREZ:** Quick question on this
15 last slide. Can you explain to us again, as I'm sure you've
16 explained it at some point in previous presentations, what's
17 this difference between Sales and Contribution pre-AB 142?
18 Because there's a noticeable gap. What does that gap
19 represent?

20 **DEPUTY DIRECTOR BUCHEN:** So, AB 142 was the
21 legislation that combined the allocation to both Prizes and
22 Education as being 87 percent of our total revenues. Prior
23 to AB 142, the Lottery was required to provide a fixed 50
24 percent of its revenues in the form of prizes. So, by
25 allowing a greater share of sales to go to prizes, we were

1 able to incentivize more people to play the Lottery, and the
2 entire -- you know, it generates more money for Education.
3 Part of it that gets lost in that, sometimes by outsiders,
4 is yes, our share of sales that go to Education is less than
5 what it used to be, but the dollars are much greater, and
6 that was the whole point. Does that answer your question?

7 **COMMISSIONER ALVIDREZ:** It does; thank you.

8 **CHAIR AHERN:** All right, any other questions?

9 All right. Does any member of the public want to address
10 the Commission at this time regarding Action Item #9e?

11 Hearing none, do I hear a motion to approve Action Item #9e,
12 Fiscal Year 2024-25 Budget?

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

14 **COMMISSIONER GARRISON-ENGBRECHT:** Second.

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

17 **MS. TOPETE:** (Inaudible)

18 **COMMISSIONER MILLS:** Yes.

19 **MS. TOPETE:** (Inaudible)

20 **COMMISSIONER ALVIDREZ:** Yes.

21 **MS. TOPETE:** (Inaudible)

22 **COMMISSIONER GARRISON-ENGBRECHT:** Yes.

23 **MS. TOPETE:** (Inaudible)

24 **CHAIR AHERN:** Yes. Okay, thank you very much.

25 And moving on to Item #10, Commissioner General Discussion.

1 Do we have any comments or discussion for today's meeting?

2 **COMMISSIONER GARRISON-ENGBRECHT:** I want to
3 recognize that today is Elisa's retirement day after serving
4 22 years at the Lottery. She's very embarrassed right now
5 because she doesn't like attention but thank you for your
6 commitment to the Lottery and supporting its operations and
7 supporting this team here on the dais. Your correspondence,
8 your interaction has been amazing, and I don't know how many
9 would tell you, but I wish you all the best in retirement.
10 And Chair Ahern, congratulations on seven years as Chair.

11 **CHAIR AHERN:** Thank you. Appreciate that; thank
12 you. Great. Item #11 is Scheduling Next Meetings.
13 Tentatively scheduled Commission Meetings are on September
14 26th and November 21st of this year. Item #12 is Public
15 Discussion. Any public discussion? Seeing none, we'll move
16 to Item #13, and seeing as how this is your last meeting,
17 we'd like to adjourn this meeting in your honor. So, thank
18 you very much for all that you've done, everything you've
19 done for me as the Chairperson. You're the reason this runs
20 so smoothly, and we're very lucky and honored to have you,
21 and we wish you the best in your retirement. With that,
22 we're adjourned. (End of Recording)

23 **(MEETING ADJOURNED)**

24 --o0o--

25

