

COMMISSION AGENDA ITEM

Item 9(e) – Strategic Plan



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To: California State Lottery Commission

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Director

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Subject: **Item 9(e) – Strategic Plan**

ISSUE

The California State Lottery (Lottery) develops a Strategic Plan to provide direction on long-term objectives and business strategies for the next three to five years. This course enables it to fulfill its mission of maximizing supplemental funding for California public education. The specific tactics and programs to achieve these objectives are part of the Annual Business Plan, which is a separate agenda item.

BACKGROUND

The California State Lottery Commission (Commission) approved a set of four Strategic Objectives on June 29, 2023.

- Expand Scratchers® sales by removing barriers to play among infrequent players
- Grow Draw Game sales particularly in Jackpot Games and Hot Spot®
- Explore new ways to expand and utilize the Lottery's strong retail network
- Continue to improve knowledge and perceptions about the Lottery

The strategic planning process for a new plan started in summer 2025 with an examination of the California Lottery's business, analysis of the U. S. lottery industry, and a review of other external business trends. Some of the information compiled included trends in sales data, playership rates, per player spending levels, consumer perceptions, and statistics from other business sectors. Highlights from the Business Review were presented to the Commission at the meeting on November 20, 2025. Many of these insights were also included in the Strategic Plan informational item presented at the Commission meeting on May 21, 2026.

DISCUSSION

Based on the analysis, to increase contributions to California public schools, the Lottery has issues to address in the short-term as well as needing longer-term objectives. It must not only look at ways to increase top-line sales but also slow the rise in operating costs in order to maximize contributions to public education.

The Lottery's financial objective to be achieved over the next three to five years will be to overtake the Florida Lottery in sales and contributions to our respective beneficiaries. This will result in California being #1 for lottery ticket sales in the U. S. and #2 in contributions to its beneficiary.

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With the New York Lottery having video lottery terminals in its product mix, it tops all U. S. lotteries in what it delivers to its beneficiary - about \$1.5 billion more than what California provided to education. While sales from traditional lottery games can be segregated, profits from just traditional lottery games cannot be isolated.

There are five strategic objectives associated with this Strategic Plan that will enable the Lottery to meet the financial targets mentioned above. A summary of each objective is outlined below. During the Commission meeting, a full presentation will be provided.

Reduce reliance on big jackpots to meet financial goals by growing Draw Game sales outside of \$1 billion+ jackpots

While the previous strategic plan had an objective dealing with Draw Games, it centered on the Jackpot Games and Hot Spot. Initiatives under this strategic objective were completed in FY 2023-24 (Hot Spot prize structure modifications) and in FY 2024-25 (Mega Millions game enhancements).

Mega Millions® and Powerball® can produce jackpots of \$1 billion or more, but, as a result, there can be wide swings in game sales from year to year depending on the number of these large jackpots. In reviewing U. S. Lottery industry sales, 17% of total sales in California were from Mega Millions and Powerball combined compared to other top selling states relying on just 6% - 13% of its sales coming from these games. Additionally, sales in California increase more dramatically when the jackpot soars to \$1 billion or more when compared to other jurisdictions.

To ensure more stable and predictable sales, the Lottery needs to become less reliant on the big jackpots from games like Mega Millions and Powerball. Gaining more consistent play in these multi-state games and/or boosting sales in other Draw Game products such as SuperLotto Plus®, Fantasy 5, Daily 3, and Hot Spot would help the Lottery get a sales profile more similar to other top selling jurisdictions.

Continue eliminating barriers to play among infrequent Scratchers players

Based on research showing why some California adults only play Scratchers infrequently, a few of the past Strategic Plans included objectives related to removing these identified barriers. The Lottery has been very successful in changing consumer perceptions of Scratchers, leading to increases in playership and in bringing greater awareness of the Lottery benefitting public education.

However, other barriers to increasing Scratchers play still exist and need to be eliminated before significant sales gains can be realized. The leading barrier still to be tackled involves the need to have cash on hand in order to buy tickets. As fewer and fewer Americans carry cash, requiring this form of payment limits unplanned purchases. The other barrier to consumers is choosing which Scratchers to buy from the two to three dozen tickets typically being displayed at retail.

Expand efforts against Core Scratchers players to battle growing competition for the entertainment and gaming dollar

Draw Game initiatives will require software changes to the Gaming System and could take a couple of years to implement all of the plans. Similarly, removing the Scratchers barriers could

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take some time to complete. However, during this time, the Lottery still needs to increase sales and contributions to education.

In 2025, estimated player spending on Scratchers declined - probably due to consumers being concerned about future economic conditions and coping with rising costs. This decrease was noted not only for casual players but also the most loyal Scratchers players. The Lottery is battling increased competition in the gaming and entertainment space from player proposition wagering and prediction market betting, and the decline in spending from loyal Scratchers players could partially be due to the rise of these other options.

While California Scratchers sales top U. S. figures at \$6.9 billion in FY 2024-25, it ranked 18th in terms of per capita Scratchers sales. The Lottery conducted a national study to gain a better understanding of why per capita sales are higher in other top selling states such as Florida, Texas, New York, and Georgia. The study found playership rates are similar across these states (with California having a higher rate than Texas). This means that other states have higher per capita sales because their players spend more on Scratchers than players in California do.

To reverse the trend of declining Scratchers player spending and to become more in line with the other successful U. S. lotteries, efforts against the most loyal Scratchers players need to expand in California in the first few years of this new strategic plan.

Elevate the customer experience for players, retailers, and internal customers

While the Strategic Plan approved in 2023 did not contain a specific objective related to improving the customer experience, a number of the initiatives still in development from this plan fit under the customer experience umbrella.

The FY 2016-17 through FY 2019-20 Strategic Plan did include a key theme of “becoming customer-focused and improving the customer experience”. A number of projects improving service to customers were implemented over that period, and it is now time for new initiatives to provide further enhancements to the customer experience.

Transform and modernize Lottery programs and processes to reduce costs and/or allow staff more time for revenue generating initiatives

Lottery operating expenses have been growing at faster rate than Lottery sales in recent years. With these higher costs, fewer dollars are available to fund an optimal marketing plan, and this impacts the growth in Lottery sales. To increase lottery contributions to California public education, efforts should not only look for ways to boost sales but also opportunities to reduce expenditures – requiring this new strategic objective.

Modernization does not mean moving towards online wagering as this is not legally permissible for the Lottery. Instead, a review of Lottery programs and processes will be done to determine ways to reduce costs and/or reduce staff time so that more of these resources can be devoted to revenue generating initiatives. Many programs and processes were developed or last modified when sales were significantly lower, and re-engineered efforts could deliver significant improvement.

RECOMMENDATION

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Staff recommends that the Commission approve the Plan.