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TRANSCRIPT OF PROCEEDINGS

CALIFORNIA STATE LOTTERY COMMISSION

COMMISSION MEETING

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DATE: Tuesday, June 16, 2026

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A P P E A R A N C E S

California State Lottery Commission

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Commissioner

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Tiffani Alvidrez
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Tuesday, June 16, 2026

Sacramento, California

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CHAIRMAN GARRISON-ENGBRECHT: Good morning, everyone. Good morning. Happy Tuesday. We're usually here on Thursday, so we were all adjusting. The meeting of the California Lottery Commission is now called to order.

Please rise and join me for the Pledge of Allegiance.

(Recitation of the Pledge of Allegiance.)

CHAIRMAN GARRISON-ENGBRECHT: We're feeling extra patriotic this week after the US Men's team won.

(Audience Cheers)

CHAIRMAN GARRISON-ENGBRECHT: Hope you're all having a good FIFA celebration in their case today.

Item Number 3 is roll call of the Commissioners. Will the secretary please call the roll?

MS. OSMAN: Good morning.

Commissioner Mills?

VICE CHAIR MILLS: Here.

MS. OSMAN: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Here.

MS. OSMAN: Commission Rasouli? Commissioner Dungca?

COMMISSIONER DUNGCA: Here.

MS. OSMAN: Chairman Garrison-Engbrecht?
CHAIRMAN GARRISON-ENGBRECHT: Here.
Good morning, Farida.
MS. OSMAN: Good morning.
CHAIRMAN GARRISON-ENGBRECHT: Item Number 4 is regarding the Election of the Chair and Vice Chair of the California State Lottery Commission for 2026-2027.
The elections will be held September 1st, 2026, at the Commission meeting. This will be a full calendar year from the prior election in September 2025. Nominees will be announced, and commissioner voting will be conducted at the upcoming September meeting. In addition, the elections at the September 1st, 2026, meeting will be for a term from September 2026 to June 2027 to allow the Commission to get back our normal election cycle schedule in June of every year.
The next item is the Consideration of Approval of the Agenda. Commissioners, does anyone want to suggest any changes to today's agenda in any respect? Seeing none, do I hear a motion to adopt the agenda?
COMMISSIONER ALVIDREZ: Motion to approve.
VICE CHAIR MILLS: Second.
CHAIRMAN GARRISON-ENGBRECHT: Second. Jinx. Will the secretary please call the roll?
MS. OSMAN: So, who was seconding that?

CHAIRMAN GARRISON-ENGBRECHT: I think Commissioner Mills got the role.

MS. OSMAN: Commissioner Mills?

VICE CHAIR MILLS: Yes.

MS. OSMAN: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. OSMAN: Commissioner Dungca?

COMMISSIONER DUNGCA: Yes.

MS. OSMAN: Chairman Garrison-Engbrecht?

CHAIRMAN GARRISON-ENGBRECHT: Yes. The next item on the agenda is Item Number 6, Approval of the Minutes. Are there any corrections to the minutes? You're teed up. Do I hear a motion to approve the minutes of the May 21st, 2026, Commission Meeting?

VICE CHAIR MILLS: I'll move to approve.

COMMISSIONER DUNGCA: Second.

CHAIRMAN GARRISON-ENGBRECHT: Will the secretary please call the roll?

MS. OSMAN: Commissioner Mills?

VICE CHAIR MILLS: Yes.

MS. OSMAN: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. OSMAN: Commissioner Dungca?

COMMISSIONER DUNGCA: Yes.

MS. OSMAN: Chairman Garrison-Engbrecht?

CHAIRMAN GARRISON-ENGBRECHT: Yes.

We need to walk up and use it. The next item on the agenda is an informational item. The first item we'll have are the Director's Comments.

DIRECTOR SHERGILL-CHIMA: Getting ahead of myself. Good morning, everyone.

CHAIRMAN GARRISON-ENGBRECHT: Good morning.

DIRECTOR SHERGILL-CHIMA: All right. I'm pleased to report that total sales as of early June are over $8.7 billion and while we're still a little shy of our goal, we are pacing 4 percent ahead of last year's sales. Scratcher sales are nearing $6.5 billion, and although our sales are currently below goal due to players, you know, tightening their budgets because of what's going on right now in this uncertain economy, I'm pleased to report our $5 games, such as Jaws, which I had mentioned last month, and our Red, White, and Blue Sevens have shown strong performance, and it's actually driving year over year growth at this price point.

The multistate games have generated more than $1.2 billion year to date, and Mega Millions is a little below gold due to less favorable rollover luck, but Powerball's 10 $1 billion plus jackpots this year continue to fuel year over year growth, and we are, fingers crossed, in a run right now with Mega Millions, where hopefully we'll start to get into some of those billion-dollar jackpots.

SuperLotto Plus continues to exceed last year's sales, while lower than anticipated top prizes have kept the daily games category also a little below goal, but Hot Spot has been our recent star. It's now outpacing goal and last year’s sales, and it significantly benefited from a promotion that we did this spring.

I know you're going to be hearing about our next business plan, but I wanted to highlight some of the 2025-26 business plan accomplishments since this is our final commission meeting of the fiscal year. As a reminder, there were six business objectives for this fiscal year, and here are the first three:

So, the Scratchers category repositioning efforts continued to break down barriers to play by showing how Scratchers can be a little form of fun and entertainment, even when you don't win. In the fall, we partnered with three California NFL teams to offer players unique Scratchers games, and a lucky second chance winner went to the Super Bowl. Post analysis shows how these sponsorships helped improve the Lottery's brand reputation, future purchase intent, and player advocacy.

Last month, we also shared how the Jaw Scratchers game was selling exceptionally well, paired with eye-catching advertising at retail, and a one-of-a-kind experience show prize for a second chance promotion that was chomping through our barriers to play.

(Audience Laughter)

DIRECTOR SHERGILL-CHIMA: The second chance was actually pretty cool. It was to go to Martha's Vineyard, where the original Jaws was filmed.

This year we have also finalized the requirements and are geared up to implement a pilot to break down some of the transactional barriers, which you'll hear a little more about later. And to grow our draw game sales we had our first Hot Spot promotion since 2016. Sales during the promotion were 25 percent higher than sales in those same weeks in the year prior. We also continued our jackpot alert advertising and made significant headway in our plans to implement the pilot at grocery and supermarkets, and make enhancements to our California drop-ins, such as SuperLotto Plus. And again, you'll hear a little more of the details about implementation later this morning.

And as you saw last month, we've continued to evolve the education campaign, sharing our story with the California public. Although I'm not going to share one today, just because of time concerns, I can't wait to share another story in September.

But that's not all that we did. To expand our retail network, we brought on new types of retail stores, such as Gelson’s, which is an electric car charging market, and we've seen Walmart sales grow to become our ninth largest chain. We also completed a pilot program that improves scratches inventory security at retail, and it's already thwarted several thieves from cash and stolen Scratchers.

Additionally, we upgraded outdated signage and equipment to more retailers to maximize their success, and now there are over 5,000 retailers with touch screen vending machines that allow for better merchandising and messaging. And for our return to focusing on the customer experience, we successfully migrated our Second Chance to a more robust and secure platform. That effort took multiple years of planning and testing, but it's going to give us the opportunity for richer and great engagement and minimize risks.

We also received approval to increase the district office price payment threshold. We upgraded our AV equipment here at headquarters, as you can see by the beautiful screen behind you, and we repaired the Fresno district office's roof. More than 30 human resource services were automated or improved, enhancing access, visibility, and customer service for our dedicated staff. And to continue building a knowledgeable and inspiring leadership team, we introduced a new lottery leadership development program and launched the California's first chapter of Women in Lottery Leadership mentorship program.

And last but not least, we wrapped up our 40th anniversary celebration with an event, which is the first of its kind to include all lottery staff at all district offices, distribution centers, and here at headquarters. All of these efforts combined in alignment with our strategic plan and business objectives have brought us here. With 4 percent growth in sales, we will exceed $9 billion in sales this year. This would mark the third year in a row that we've hit this milestone. More than $6 billion has gone out to the players in the form of prizes, and another $630 million to California's communities through retailer commissions and bonuses.

We have 23,296 retail partners after welcoming more than 540 to our fold this year. That includes 72 new retailers in our social trade channel that are prime locations for our Hot Spot game.

As barriers to play were eliminated, Scratchers player shipped through to 56 percent of all California adults that are over 18, once again seeing growth year over year. Four out of 10 California adults are now aware of our important mission, which is significantly up from the year prior. And internally, our efforts have resulted in 82 percent of employees indicating they are somewhat or fully engaged at the workplace, and that's an improvement from our last measurement a couple of years ago.

And of the 34 training classes that our HR team conducted this year, we had a 94 percent completion rate for supervisors, and that's demonstrating a strong and effective effort to strengthen leadership capabilities and improve employee satisfaction across our organization.

And my most important update this morning is that we expect to provide more than $2 billion, $2.1 billion specifically, in supplemental support for California's public schools and universities this fiscal year. This makes it the fourth year out of the past five that the Lottery has provided over $2 billion to education, and I want to give a big shout out to every single employee because it really does take all of us to accomplish something like this. And that brings our cumulative total to over $50 billion to California education since the Lottery's inception in 1985.

(Audience Applause)

DIRECTOR SHERGILL-CHIMA: And that is my report for you this morning. I'm happy to answer any questions that you all might have.

COMMISSIONER ALVIDREZ: No questions. Just a comment. Really, I'm at a loss of words. It is astounding the amount that has been attributed to public education in supplemental funding under your leadership. You have continued with that trend of maximizing kind of that give, and I deeply appreciate it. It just makes me supremely proud to be one of a handful of commissioners who gets the joy of being able to be of service to the people of California by way of California State Lottery. So, thank you. Thank you for this update. It is right on time.

DIRECTOR SHERGILL-CHIMA: Thank you, but I do have to really emphasize it's not me, and it's not the prior director, it's everybody together. And I really do mean that when I say that. And to go now, I mean, as you all know, we've been kind of going to these district office visits, and also in house here at headquarters, and to hear the number of people who are telling us that they are so excited about our mission, and that they're so excited to work here at the Lottery, and they're excited about the changes that we've made. It just goes to show that continuity of leadership is so, so important, and so many wonderful things can be accomplished when there's continuity of leadership. But I have to say, we have a fantastic team all the way across the state, and I'm a lucky one. Thank you.

CHAIRMAN GARRISON-ENGBRECHT: The next item on the agenda is the Consent Calendar. There are no items under the Consent Calendar, so we'll proceed to Action Items. Our first action item is FY 2026-2027 Fleet Vehicle Procurement Plan presented by Derick Brickner. Good morning, Derick.

MANAGER BRICKNER: Good morning.

CHAIRMAN GARRISON-ENGBRECHT: Your walk's a little shorter.

MANAGER BRICKNER: Yeah. Okay.

Thank you and good morning, Commissioners. I will be presenting issue Item 9a, the Fiscal Year '26-'27 Fleet Vehicle Procurement Plan. The Lottery is seeking approval to procure 98 vehicles and associated upfitting equipment with a maximum expenditure of $5,809,425.

The Lottery's fleet consists of 422 owned and leased vehicles. These vehicles support the daily operations for sales, sled, and operation staff. The Fleet Services Unit, FSU, conducts annual vehicle replacements based on age, mileage, safety, maintenance cost, and reliability. Additional vehicles are also procured to support newly approved positions requiring field transportation.

For fiscal year '26-'27 FSU is projecting to procure 98 vehicles, including replacement for 66 high mileage or aging Lottery-owned vehicles, 20 Enterprise leased vehicles with expiring leases, and adding three sedans and nine cargo vans to support the sales business development unit, and the additional staff that is tasked with onboarding Walgreens as a new retail partner.

FSU evaluated vehicle options from the Department of General Services statewide contract for fleet vehicles. Using this leveraged procurement agreement ensures competitive pricing. Sales stakeholders selected the Ford T150 transit van, which makes up the bulk of the purchases, based on pricing, reliability, and operational suitability, and overall value.

The Lottery remains committed to supporting the state's zero emission vehicle goals, consistent with Executive Order N7920, and 39 of the vehicles being purchased will be hybrid, plug-in hybrid, or battery electric. The remaining 59 vehicles fall under the zero-emission vehicle exemption based on operational needs. These vehicles are assigned to staff with home storage permits and must serve geographically dispersed statewide territories.

Current electric cargo van platforms cannot meet the required daily range or the charging availability in remote service areas. Approval of this item will support operational efficiency and reliability, improve safety, reduce long-term maintenance and rental cost, and modernize the fleet and reduce emissions.

In closing, staff recommends approval to procure and upfit 98 fleet vehicles with a maximum expenditure of

$5,809,425. Thank you. And I can take any questions you may have this time.

CHAIRMAN GARRISON-ENGBRECHT: Thank you, Derick. Does any member of the public want to address the Commission at this time regarding Action Item 9a?

Do any of the Commissioners have any questions or comments regarding Action Item 9a?

Do I hear a motion to approve Action Item 9a, Fiscal Year 2026-2027 Fleet Vehicle Procurement Plan?

VICE CHAIR MILLS: Move to approve.

COMMISSIONER ALVIDREZ: Second.

CHAIRMAN GARRISON-ENGBRECHT: Will the secretary please call the roll?

MS. OSMAN: Commissioner Mills?

VICE CHAIR MILLS: Yes.

MS. OSMAN: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. OSMAN: Commissioner Dungca?

COMMISSIONER DUNGCA: Yes.

MS. OSMAN: Chairman Garrison-Engbrecht?

CHAIRMAN GARRISON-ENGBRECHT: Yes.

There you go. Thank you.

MANAGER BRICKNER: Thank you, Commissioners.

CHAIRMAN GARRISON-ENGBRECHT: The next item, Action Item 9b, Regulation Changes at the Powerball Games by

Sharon Allen.

DEPUTY DIRECTOR ALLEN: All right. Good morning.

CHAIRMAN GARRISON-ENGBRECHT: Good morning.

DEPUTY DIRECTOR ALLEN: All right. The Lottery began offering Powerball in 2013 via a cross-sell agreement between the Mega Millions Consortium and the Multi-State Lottery Association, also known as MUSL. While the Lottery participates and sells Powerball, we are not a voting member of MUSL, and today Powerball is offered in 48 US jurisdictions. The game remains an important part of the Lottery's product portfolio, and it is projected to generate roughly $833 million in sales this fiscal year. Growing sales in these highly profitable jackpot games like Powerball continues to be a key strategic priority.

While multiple billion-dollar jackpots have helped fuel sales to record levels, the Lottery, like other jurisdictions, has seen sales soften across all jackpot levels. Players have reached what we call jackpot fatigue. It's where even substantial jackpots no longer drive the sales, player excitement, and public attention that they once did, creating the need for larger jackpots to maintain interest and sales. To help combat this phenomenon, MUSL announced that Powerball will be expanding into the United Kingdom this summer in order to strengthen the game, grow jackpots more quickly, and ensure it remains a dependable source of funding for participating Lottery's good causes.

This change is similar to past editions of US jurisdictions, such as the most recent edition of Mississippi in 2020 or when we joined in 2013. The game will remain consistent for players in the United States. It has the same price, odds, draw days, and times, and in California, it will also remain para-mutual.

The Lottery Act and Lottery Regulations do not prohibit the Lottery from selling Powerball if the game expands internationally. However, the regulations must be amended. Minor revisions are required, such as changing references from a multi-state lottery game to multi-jurisdictional. Retaining Powerball in the game portfolio is a key component of delivering on the Lottery's mission. The higher profit margins of draw games create greater opportunities to grow the Lottery's profits and contributions to education.

For context, the Lottery's budget for next fiscal year includes a projected $565 million in sales revenue from Powerball. If Powerball were no longer sold here, the Lottery would lose that sales revenue and the associated contributions to education.

So with that, Lottery staff recommends the commission approve the adopted amended Powerball regulations to allow the Lottery to continue to sell Powerball. And I'd be happy to answer any questions.

CHAIRMAN GARRISON-ENGBRECHT: Does any member of the public want to address the Commission at this time regarding Action Item 9b?

Do any of the Commissioners any questions regarding or comments regarding this action item?

VICE CHAIR MILLS: Thanks, Sharon, for the presentation. You mentioned something about California not being a voting member of MUSL.

DEPUTY DIRECTOR ALLEN: Yes.

VICE CHAIR MILLS: Can you talk a little bit about voting member versus non-voting member and --

DEPUTY DIRECTOR ALLEN: There are two kind of multi-state lottery organizations. There's the Mega Millions Consortium, which California is a member, and we're very excited. Harj was just named the lead director of the Mega Millions Consortium.

(Audience Applause)

DEPUTY DIRECTOR ALLEN: And the Multi-State Lottery Organization, and you cannot be a member of both.

VICE CHAIR MILLS: I see.

DEPUTY DIRECTOR ALLEN: And at one time, when this, you know, back in the history of the Lottery, you could not sell both games. And so California started, you know, was in Mega Millions, while other states, primarily started with smaller states, sold Powerball through MUSL. Over time, the cross-sell agreement was established and allowed states to sell both games.

VICE CHAIR MILLS: Okay. Thank you. Super helpful.

CHAIRMAN GARRISON-ENGBRECHT: Any additional questions?

MS. OSMAN: Sorry. Just teeing up the next item.

DEPUTY DIRECTOR ALLEN: Okay. I don't know how to get it back, so.

CHAIRMAN GARRISON-ENGBRECHT: Do I hear a motion to approve Action Item 9b, the Regulation Changes to the Powerball Game?

COMMISSIONER DUNGCA: Motion to approve.

VICE CHAIR MILLS: Second.

CHAIRMAN GARRISON-ENGBRECHT: Will the secretary please call the roll?

MS. OSMAN: Commissioner Mills?

VICE CHAIR MILLS: Yes.

MS. OSMAN: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. OSMAN: Commissioner Dungca?

COMMISSIONER DUNGCA: Yes.

MS. OSMAN: Chairman Garrison-Engbrecht?

CHAIRMAN GARRISON-ENGBRECHT: Yes. Thank you.

Next one is Action Item 9c, Silver Star Movers Incorporated Contract Extension.

DEPUTY DIRECTOR ALLEN: Okay. All right.

The Lottery currently contracts with Silver Star Movers for bulk delivery services for Scratchers tickets and point of sale materials between the Lottery Southern Distribution Center and the five Southern California District Offices, which support more than 8900 retailers. In 2022, the Commission approved a three-year contract with Silver Star with an initial expenditure authority of $422,000, and two optional one-year extensions. Last year, the first option was exercised, and the contract is now set to expire in September.

Silver Star has been responsive, reliable, and timely, with over 600 shipments delivered during the contract. While the Lottery could go out to bid, it's not necessary at this time when there's a capable vendor in place and a contract extension is available. Exercising this extension will enable the Lottery to maximize sales opportunities by ensuring adequate inventory of Scratchers and POS items are available at each of the Southern California District Offices to meet the needs of retailers.

There will be approximately $156,000 of the current contract expenditure authority remaining at the end of the contract term. Based on forecasted number of shipments needed during the proposed extension, an additional $72,000 will be needed. Staff recommends the commission approve the second one-year contract extension to the Silver Star Movers Bulk Delivery Services Contract, extending the term through September 14th, 2027, and an increase in expenditure authority of $72,000, bringing the maximum amount to $494,000.

With that, I'd be happy to answer any questions.

CHAIRMAN GARRISON-ENGBRECHT: Does any member of the public want to address the Commission at this time regarding Action Item 9c?

Do any Commissioners have any questions or comments regarding Action Item 9c?

Do I hear a motion to approve Action Item 9c, Silver Star Movers Incorporated Contract Extension?

VICE CHAIR MILLS: Move to approve.

COMMISSIONER DUNGCA: Second.

CHAIRMAN GARRISON-ENGBRECHT: Will the secretary please call the roll?

MS. OSMAN: Commissioner Mills?

VICE CHAIR MILLS: Yes.

MS. OSMAN: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. OSMAN: Commissioner Dungca?

COMMISSIONER DUNGCA: Yes.

MS. OSMAN: Chairman Garrison-Engbrecht?

CHAIRMAN GARRISON-ENGBRECHT: Yes.

DEPUTY DIRECTOR ALLEN: Thank you.

CHAIRMAN GARRISON-ENGBRECHT: You're up again. The next item is item 9d, Lead Marketing and Advertising Agency Contract Award.

DEPUTY DIRECTOR ALLEN: Okay. Thank you.

Today I am requesting approval to enter into a new contract for lead agency marketing and advertising services with Butler, Shine, Stern & Partners, also known as BSSP.

The Lottery's lead marketing and advertising agency is responsible for developing the strategy, creative, and media planning necessary to advance the Lottery's strategic objectives. Working collaboratively with Lottery staff, the lead agency guides overall strategic development across the integrated agency team, produces creative for the general market, and manages media planning and buying for all paid advertising programs, including in-language audience segments, public affairs, and other corporate initiatives.

The Lottery requires a highly creative agency with best-in-class capabilities in strategic planning, creative development, and media planning and buying. The lead agency must be capable of developing highly integrated marketing and advertising programs that break through and deliver contextually relevant communications and experiences that elevate the Lottery brand and drive sales.

In anticipation of the expiration of the current lead agency contract, the Lottery released a request for proposal last July to solicit bids for these services. The RFP was posted on the Lottery in California state contracts websites, and to increase the number of potential proposers, a notification was sent to the Lottery's database of registered vendors and to a list of agencies in California. Additionally, it was advertised on industry-specific websites and trade publications.

The process consisted of three phases, each with a diverse Lottery evaluation team comprised of various members for marketing and dedicated subject matter experts, as well as representatives from procurement services and support.

The first phase focused on agency capabilities, case studies, and current samples of work. It was open to all agencies and joint ventures that met specified minimum requirements, such as the number of years of experience, minimum employees, minimum billings, and other business requirements, like having an office in California. Twenty agencies submitted proposals in response to the RFP, and ten agency teams advanced to phase two.

This phase focused on chemistry and culture to ensure compatibility. It consisted of on-site meetings at agency offices with the Lottery evaluation team and the semifinalists. The purpose was to provide each agency with the opportunity to give the evaluation team a sense of their agency that went beyond the written proposal and description of credentials that were evaluated in phase one. Of the ten agencies that participated, six agency teams advanced to phase three, or the finalist phase.

In this phase, the six finalists were asked to prepare and present a Lottery-specific work assignment. The Lottery was looking for each finalist agency's recommendations and creative capabilities, as well as the analytical and strategic thinking used to support the proposed direction. Finalists also submitted a staff plan demonstrating how they would staff the Lottery count and their respective compensation requirements, which were evaluated on both a standalone and comparative basis.

For the three finalists with the highest combined scores in phase three, a competitive range process was established where the agencies were offered an opportunity to adjust and improve their proposals. After receiving the final proposals from each finalist, the evaluation team performed a best value analysis to determine which agency proposal would provide the Lottery with the maximum benefits in the areas of competence, experience, qualifications, performance, security, and price. As a result of this analysis, the evaluation team determined that BSSP would provide the Lottery with the best value in the desired areas.

BSSP demonstrated the ability to deliver strategic and creative solutions that will support the Lottery's growth in the years ahead. BSSP brought forward innovative thinking, exceptional creativity, and clear strategic leadership. They demonstrated a robust command of player insights, data, and category dynamics, translating these into a cohesive strategic platform that aligns well with the Lottery's goals. The overall quality of BSSP and its team are exemplified by it significantly exceeds ratings in the three phases of the RFP.

Based on an analysis of historical expenditures, anticipated future initiatives, and a moderate inflation rate during the initial term of the contract, staff proposes $550 million as the maximum authorized contract expenditure authority.

Before concluding, I'd like to thank RFP Chairperson Melissa Wells and PSS Manager Ivan Jen, all the evaluation team members, and other SMEs and stakeholders who assisted on this project. I also want to give a special thank you to Assistant Deputy Director of Marketing, Whitney Alderson, and Chief of Consumer Marketing John Koyama. As you know, these agencies RFPs are long and involved, and this one even more so. Whitney and John have played a critical role in this entire process, while also managing their day-to-day responsibilities.

I would also like to acknowledge and thank our current lead agency partner, David & Goliath. Through two contracts in over 15 years, they've been instrumental in helping the Lottery achieve its goals and reach where we are today, and we are very appreciative of their partnership and dedication.

And with that, staff recommends the commission approve a five-year contract to Butler, Shine, Stern, and Partners for lead marketing and advertising agency services, with the option to extend the contract for up to two additional one-year terms and a maximum authorized contract expenditure of $550 million.

And I'd be happy to answer any questions.

CHAIRMAN GARRISON-ENGBRECHT: Thank you, Sharon. Does any member of the public want to address the Commission at this time regarding Action Item 9d?

Do any of the Commissioners have questions, comments regarding Action Item 9d?

VICE CHAIR MILLS: Thanks, Sharon, for the presentation. I know I've asked multiple times, like why are these (inaudible) taking so long, and I think you just explained why. I appreciate the details that you laid out, and all the work that went into this incredibly extensive process, and it's super important. So, thanks to you and everybody that was involved on the team to complete this process.

My question, I'm wondering if you could just talk a little bit about the transition process from our longstanding historical vendor to this new vendor, and kind of the processes that will be in place to kind of minimize that. It's always disruptive to change vendors, especially after we've been with one for such a long time, so maybe if you could talk a little bit about the plans in place to minimize that disruption.

And then I'm also thinking about the budget cuts to the marketing department budget that we're going to hear more about later, and how you see this -- you know, how you're going to manage both this massive transition of a vendor with anticipated budget cuts that you'll be facing this year, as well.

DEPUTY DIRECTOR ALLEN: Okay. First off on the transition, one of the things that's part of the phase three finalists, when I talked about the staff plan and compensation, is actually each agency has to submit a transition plan. So we do evaluate like their readiness to take on the business, so that starts there. And then now that we're in the phase, if we get approved today, and the contract will go into effect starting July 1st is our target date, but we've already started thinking about our transition plans.

We will have some overlap and making sure that work that is currently in progress will continue, and then we will determine cutover dates for each of the different projects that we're doing, while also making sure that our new partners are up to speed and understand the Lottery's background, our strategic goals, the deep research, knowledge, insights, you know, past efforts against all of our product lines, our brand, and we're working through a plan to do that, as well as all the logistics. We've got, you know, billing and policies on information security, as well as all of our advertising guidelines, ensuring responsible gaming.

So, we've got a team within the Lottery that's within the marketing team. This is kind of our transition team to help us build out those lists and manage it as a project, while also working with our new partner and our current partner on a sensible transition plan to make sure we minimize as much as we can any negative impacts. And after today and once the contract is signed, we'll be able to get more into it and go forward. So we're still working through the timelines, but we'll have a few months on that.

In terms of the budget cuts, obviously, that is a challenge, and we'll need to work through -- the current contract that we have is seven years old, so by nature of just time going by, there is a larger expense with this contract. But through efficiencies and planning, we are going to have to hit the highest priorities that have the largest ROI, and one of the things that we do do is look at our ROI against our paid media investment.

There's a lot of things that we would like to do, but we have to cut and prioritize either it's based budget or resources. In one respect, having a little bit less day-to-day campaign activity for this aspect will allow us to onboard and continue pick up the activities, and we know we've been in close contact with finance about potential reserves and being able to hopefully bring back the budget later into the year.

And we also continue with our other activities across marketing, with retail marketing, with our engagement and retention program. So we're hoping that we won't have too significant of an impact in terms of those budget cuts, but it does make it challenging to plan ahead and do all that, so we're doing the best we can to be proactive and minimize impacts and go from there.

VICE CHAIR MILLS: Thank you.

CHAIRMAN GARRISON-ENGBRECHT: Any additional questions? Do I hear a motion to approve Action Item 9d, Lead Marketing Advertising Agency Contract Award?

COMMISSIONER ALVIDREZ: Motion to approve.

VICE CHAIR MILLS: Second.

CHAIRMAN GARRISON-ENGBRECHT: Will the secretary please call the roll?

MS. OSMAN: Commissioner Mills?

VICE CHAIR MILLS: Yes.

MS. OSMAN: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. OSMAN: Commissioner Dungca?

COMMISSIONER DUNGCA: Yes.

MS. OSMAN: Chairman Garrison-Engbrecht?

CHAIRMAN GARRISON-ENGBRECHT: Yes.

DEPUTY DIRECTOR ALLEN: All right. Thank you so much.

CHAIRMAN GARRISON-ENGBRECHT: Sharon, I just want to say again, kudos to you, and your entire team.

DEPUTY DIRECTOR ALLEN: Thank you.

CHAIRMAN GARRISON-ENGBRECHT: Whitney and John. I'll just echo what Commissioner Mills said. I know it's not easy process. I know it takes a lot of time, effort, eyes, and ears. The meetings are hopefully not too time consuming and enjoyable, but just well done to you and the entire team on this effort. And a big shout out to David & Goliath. I know I've gotten to meet a handful of our partners with D&G. They've been amazing. I'm really excited to work with BSSP.

DEPUTY DIRECTOR ALLEN: Yeah. And they’re here in the audience as well. I’m very excited as well. Thank you to everybody. And the good thing about this process is it works. We've done it, you know. We've got a balance being a state agency and all the requirements that a state agency procurement requires with the unique challenges of being a $9 billion consumer product business. And through this process, we've gotten very good feedback from the participating vendors. We're always looking to improve because we're already working on the next one, and we'll go from there. But thank you so much today.

CHAIRMAN GARRISON-ENGBRECHT: Thank you. Next item, our Strategic Plan, Item 9e. All right. Jim, good morning.

DEPUTY DIRECTOR HASEGAWA: Good morning, Mr. Chairman and thank you, Commissioners, and Director Chima.

All right. For Agenda Item 9e, staff seeks approval for the Lottery's Strategic Plan. Through this action, the Commission will be approving the five strategic objectives and the general direction for our business over the next three to five years. The specific projects and tactics that support these objectives are part of our Annual Business Plan, and these will be presented as Item 9f on today's agenda.

Now given that three of the five strategic objectives are either totally new or have not been part of our strategic plan for several years, your approval of the strategic objectives will enable staff to further develop long-term strategies and tactics.

In today's presentation, a section will be devoted to each of the five strategic objectives, showing their origins and why it is a key component in driving our success. However, before we go through each objective, some information needs to be presented that will provide some context for the business environment confronting the Lottery as we begin this new plan.

So a little bit about the process, so while I'm up here presenting the plan, it's by no means just one person doing this. It involved the entire executive team here at the Lottery, as well as many of their respective managers in their various divisions. For the business planning team, the process started more than a year ago with the development of the business review. Here we analyze sales, playership, perceptions of our products, and those that are in other key US lotteries as well.

And then we also look at external factors that could impact our business. We shared insights and discussed the implications of this business review with the directorate and the entire executive management team during the summer of 2025. Then the executive management team and their respective managers, we started focusing on the key issues that will be confronting the Lottery in the future and developing some preliminary objectives and (inaudible) fall.

Now, highlights from the Business Review Project, just highlights and few excerpts from this extensive business review were presented as an informational item at the November Commission meeting. In late February and early March of this calendar year, individual briefings with the Commissioners was conducted to give you an update and a status as to where we stood with our strategic objectives, where they were coming from, and asked for feedback. The Draft Strategic Plan was presented as an informational item at the May Commission meeting, and now it's the formal agenda item today.

All right. So, in recap, the Lottery saw tremendous growth in sales and contributions to education for more than a decade after AB 142 was passed and signed by the governor in April of 2010. This removed price payout restrictions in the Lottery Act. Now Scratchers was the product that benefited the most from price payout relief. Proven strategies from other lottery jurisdictions were then implemented, such as higher price point tickets. For example, our first $10 game was launched in 2011 followed by a $20 game in 2013 and $30 game in 2015. But since fiscal year ‘22-‘23 sales have been relatively flat, around the $9 billion mark.

Now if you compare the most recently completed fiscal year with fiscal year 2015-2016, you can see how the two product categories differed in terms of their sales growth. Scratchers, as I said, benefited the most. You can see that this category grew by more than two and a half billion dollars, and in terms of per capita sales, we rose three full ranks in the nation. On the other hand, draw games grew by a little more than $100 million with our ranking in terms of per capita sales remaining in the same position. So, in kind of summary, with this chart, the chapter of tremendous growth that we saw as a result of removing price cap restrictions seems to be coming to a close, and so sales growth in the upcoming years will be much more modest.

Now last meeting I did touch upon, you know, the competitive threats out there in the gaming and entertainment space. I wanted to spend a little more time, you know, to provide a little more details and examples during today's presentation. DraftKings is just one of many sports wagering companies that offers what is called player proposition betting, which is legal in California. Now, here, consumers wager whether a specific player will have a higher or lower number on some specific statistic associated with that day's game.

So, for example, this being now baseball season, it might be that for a major league baseball pitcher it would be higher or lower that they would have six and a half strikeouts in today's game, for example. If it was for a batter, it might be higher or lower on the number of hits that that particular player will get in that game, or it could be the number of home runs hit by that player in that particular game. So those are the various propositions that people would bet higher or lower on.

For NFL games, you could wager over and under on the number of passing yards by a quarterback, the number of rushing yards by a running back, or if a specific player will have the first touchdown scored in the game. So, there's lots and lots and lots of propositions that are out there for people to bet, and they also can build parlays, so they might have to get three out of three of these predictions correct to win a larger prize, since that is a harder thing to do.

These companies offer various signup offers and promotions for their customers, including the free plays that are seen in this ad. The offers I've seen over time are ones really the Lottery can’t match because they have a lot of dollars behind them with these other companies. And as you see in this ad, they use celebrity ambassadors, in this case, Kevin Hart.

The prediction markets are similar, but they operate as financial exchange, kind of like stocks, if you might think of it, rather than a typical sports book. And they actually call their bets event contracts. So, companies such as Kalshi and Polymarket offer more than just sporting events. You can, as their line goes, you can bet practically on anything, you know, from elections and sports to things that are in pop culture.

Now, I've taken a screenshot from some events that appeared on their website last week, and that's what's there. So, the NBA finals are represented on the left column, but there are also bets that aren't even for sports fans on these things. So, in the middle column, you can see you could do an event contract based on which celebrities would be in attendance at the Knicks/Spurs game that happened to be in New York that week, so you can see there to, like, you know, you could wager on whether Tina Fey will actually be in the audience in the crowd.

There are also other events in pop culture. So other ones that are shown here is who will be bridesmaid at Taylor Swift's wedding. Other ones include where that wedding will take place and so forth. You can also wager on who will win the Oscars, who will have the number one song in June, or even who will be eliminated this week on the TV show Love Island. So you can really see that it really is made to be more about entertainment and not gambling, which fits into Lottery space about fun and play entertainment. So it definitely is a very competitive threat. Now Kalshi also has celebrity ambassadors trying to go with their positioning, they have now partnered with Timothee Chalamet to be one of their ambassadors, and he's been recently featured in Kalshi ads across TV and in social media.

So that's one external issue that we looked at that confronts us. The other one, of course, deals with something called the economy. Now, the economy definitely impacts discretionary spending on the part of consumers, and that discretionary spending then impacts lottery. Since 2020 we have conducted a survey of California adults here during the spring to get a handle on their participation in various leisure time activities, and for the last several years, more recently on things like their perception of how inflation is impacting them, as well as their future perceptions of what the economy will be in the upcoming year.

So this survey was conducted, this table here, was conducted back in February, and that was before the significant rise that we've been seeing with gas prices.

But even with that, you can see that 63 percent of California adults definitely feel impacted by inflation because they're saying that essentials are consuming a larger and larger share of their income than before.

Now because people are getting maybe a little more used to the inflationary figures, you can see that percentage is down a little bit from the prior year. But what really clouded kind of the planning effort for the upcoming years is the poor outlook in the future. So you can see some of the statistics up there. Only 27 percent of California adults believe that the worst of inflation is behind us, so they have definitely more pessimistic outlook on the future of our economy, and in fact 35 percent of working Californians feel confident about their future with their current employer.

So all of this as a whole means that players or consumers in general are more cautious with their spending, and by being more cautious with their spending, it definitely impacts Lottery sales because we aren't an essential item.

Given all of these issues and what's driving us, of course, is how are we going to grow our sales, and what are we going to do. So, our financial objective for this next strategic plan is to, as we've talked about it in many presentations prior about how close we are to Florida, is really surpassing Florida, both in terms of sales, but more importantly, the amount that each of our states contribute to our beneficiary. You can see some of the statistics between Florida and California up there, and you can see we are definitely within shot of surpassing Florida, even with the slight sales that we've had in more recent years, so we do see that as an attainable goal.

If we do reach this goal through the strategic plan, we will be the number one in the nation in sales and number two in contributions, and I do want to point out why the difference in contributions come out, and that's because New York is one of the few lotteries in the US that actually they are controlling various video lottery terminals within the state. Video Lottery Terminals are essentially like slot machines, and with that, you can see that New York provides a huge amount to their beneficiary, over three and a half billion, and I assume quite a significant portion of that would be due to the VLTs.

While sales data is very easy to desegregate so we can compare apples to apples, their bottom line doesn't make it as easy to do that, and that's why the 3.58 billion is the figure we have, and we wouldn't be able to surpass them that way because they have the VLTs.

Through the business review to meet this financial objective, there are five strategic objectives, and by tackling these five strategic objectives, we will be able to grow our sales and contributions and meet our financial objectives. I'll go through each of them individually at this point, and then talk about the origin, and then why it's important.

Our first objective is to reduce reliance on big jackpots to meet our financial goals by growing draw game sales outside of the $1 billion-plus jackpots. Now this strategic objective has evolved from a prior strategic plan objective, which was growing draw game sales, particularly jackpot games and Hot Spot.

Now, over the past three years, game enhancements have been implemented. For Hot Spot, you heard earlier the price structure was modified that allowed for periodic promotions, and in the spring of 2026, we had the first of those promotions. In this case, Bullseye prices were increased by 50 percent, and you heard the director talk about the sales increases that promotion offered. With that structural change, we'll be able to do these promotions every year.

Mega Millions, one of our jackpot games, had a game enhancement in April ’25, and you can see that sales did increase with jackpots under $400 million and the average purchase amount has gone up. However, sales are not quite what they were pre-change when the jackpots were above that $100 million mark, and we still haven't seen that billion-dollar jackpot out of the game, but that's due to what we would call rollover luck not because of the game design itself.

Now, draw games are an important part of our product portfolio, because they have a higher profit margin. So this way, as we invest and develop initiatives to increase sales in the draw games, more goes down to our bottom line and leads to greater contributions to education, and that's why it is so important to grow our draw game product.

This looks at the jackpot game sales over time. Our jackpot games include Mega Millions, Powerball, and our in-state lotto game, Super Lotto Plus. So, based on the current game designs, really it's driven a lot by big jackpots, but you know, big jackpots only occur after many, many months of rollovers without a winner. And as such, they're going to be really wide swings in sales from year to year. The Director talked about it in her report as well. But for example, in fiscal ‘24-’25, sales from the jackpot games was more than $670 million lower than the prior fiscal year, and this was due to the differences in the number of big jackpots that you saw in those games, the billion dollar plus ones.

Now, players in California spend much less on draw games than, say, our Scratcher players spend on Scratchers. So, for example, for every draw game except Hot Spot, the average player spends less than $1 per week. You compare that to Scratchers, and the average Scratcher player here spends about $8 per week. So you can see there's definitely opportunity to grow sales in the draw game category.

To look at that potential, we really compared our playership rates for jackpot games with those collected from a national survey that we conducted. And looking at that, the percentage of adults in our state buying jackpot games is pretty comparable to the other large selling states. One exception was New York. New York does have a higher percentage of their adult population buying their jackpot games compared to here.

What our survey also saw is that we found that other top lotteries have their players buying the jackpot games on a more consistent basis. A higher percentage of them are buying it on a weekly basis. We have a lot of players who are more casual players and infrequent players who pretty much come in when the jackpot gets big. And this results in California's share of the national sales for one of the big jackpot games to really grow when the jackpot gets big because we don't have as many of those consistent players.

So, for example, when the jackpot is low, we represent about 12 to 13 percent of national sales. When jackpot was over a billion, we represent 15 percent of the entire US sales, so we get a lot more of those people who jump in. So again, that presents the opportunity for us to gain more consistent play in the jackpot games, more like other states do.

And the third thing to point out is that we're much more reliant on multistate jackpot games for our total sales than other top selling jurisdictions. Again, so that makes us more subject to those fluctuations in those games. So, you can see that 17 percent of our sales from fiscal '23-'24 came from Powerball or Mega Millions, and you compare that with the other top selling lotteries that they range from 6 to 13 percent. So, our total sales can fluctuate more year to year based on the number of big jackpots compared to, say, some of the other top selling lotteries. And that's what's driving this objective to become less reliant because that way we'll have a little bit better consistent sales from year to year and not just be so reliant on jackpot.

All right. The next objective, continue eliminating barriers to play among infrequent Scratcher players. Now, this objective should sound familiar, as it has been part of our strategic plan since 2020. As discussed by me at prior meetings and by the Director earlier today, these strategies and tactics, such as repositioning our Scratchers from that transactional prize-driven game to a more casual entertainment experience, as well as our education campaign, has been very successful. We've seen that it has increased or shifted the product perceptions, it improved awareness of who our beneficiary is, and has actually increased playership rates of Scratchers in our state.

And here's some examples right there. So you can see playership increased, perceptions of the product’s fun and entertainment value have increased, as well as a higher percentage of Californians knowing that education is our beneficiaries. The Director mentioned it was at 40 percent. Prior to the campaign, that same measurement was that just 25 percent of California adults.

Now the original consumer research that led to tackling these barriers found many barriers that cause Scratcher players to purchase infrequently, and it looks like we believe that in order to increase sales from our casual structure players, we need to tear down all or at least most of these barriers. The largest barrier still needing to be tackled is having to have cash on hand to make a purchase. This chart displays the share of payment types for financial transaction, and this study is from the Federal Reserve's Diary of Consumer Payment Choice that's conducted annually. And you can see that the percentage of transactions paid in cash has been steadily declining. While they represented nearly 1/3 in 2016, it's down to 16 percent in the 2023 study.

The problem is that by having to pay in cash, this means we potentially lose out on purchases that would be stimulated by something seen at the retail store. And we know that many of our players say they buy because they saw the tickets in the display case or saw somebody else make a purchase or talk about Scratchers.

Well, if you don't have cash on hand, even though that thought comes into your mind, you're unable to make the purchase. So our purchases would have to be planned because some people who don't carry cash have to say, oh, I'm going to go buy a Scratcher ticket today and make sure they have cash on hand. That means we lose out on some transactions at the retail store.

The other barrier that needs to be tackled is helping our casual players select a ticket. You know, it turns out that these infrequent players tell us that making the decision to find which specific ticket to buy among the many options is very daunting. It's very overwhelming to them because you have to remember that now our typical retailer carries between two and three dozen different variety of Scratcher games. There's a lot of variety out there, and it ends up that they don't feel they can make a quick decision, and these consumers are concerned about slowing down the line, and so they just decide that the easiest solution is not to buy anything. And again, we lose that on a purchase of somebody who was interested in making a purchase. And so these are the two barriers that (inaudible) barriers that need to still be tackled in this area.

Third objective, expanding efforts against core Scratcher players to battle growing competition for the entertainment and gaming dollar. So the first two objectives I just discussed this morning, they won't be fully achieved within -- not for a few years and not until a few years, because you've got things with the draw games that require changes to our gaming system to be planned and software developed and tested and introduced, as well as the barriers to tackle that I described will take time to either roll out the pilot, and then eventually look at its success, and roll it out statewide, and then build programs to help the casual player build, you know, make that decision on which Scratcher game to buy. So those will take a little bit of time, so we do, you know, need to find something in the interim.

You know, as I mentioned before, the competition for the gaming dollar is fierce. There's some need to build something more immediate in the future, and for these reasons, it makes sense to provide some additional focus against our core Scratcher players. For any business as the economy softens and consumers watch their spending, these companies tend to want to focus on retaining their existing loyal customers, and that's what this objective is about.

Now, although marketing tactics against our core Scratcher player base have always been present, it's now time for expanding those efforts and doing a little more refocusing against them over the next couple of years for more immediate sales gains, and that way it'll give time for the other objectives in our strategic plan to develop, take hold, and have some impact. And therefore, this objective is totally new in our strategic plan, although, as I said, the efforts have been around for -- just additional efforts are needed at this time.

So, in fiscal ’24-’25, spending amongst our core Scratcher players declined by about 5 percent from the prior year. While spending levels are still above pre-pandemic level, this decline probably indicates the effects of economic concerns that consumers have, as well as some of the increased competition around.

Now, although we are the number $1 volume in terms of Scratchers sales in the total in the US, our per capita sales, which is taking total sales divided by the total population, you can see we rank 18th. And so we wanted to try and understand what's driving our lower per capita sales compared to these other jurisdictions that have much higher per capita sales. For a state to have higher per capita sales, it could mean that they have a higher percentage of their adults playing Scratchers, or it could mean that they have more higher spending amongst their players than our players do, or a combination of both.

So again, we conducted that same study I described earlier for draw games. We did a study to look at cross nationally, what's the playership rate in a lot of these top selling jurisdictions. And what we found is that our lower per capita sales rate stems from lower player spending, and that's because our playership rate of Scratchers is not only higher than Texas, it's comparable as to all the other top selling states. So, we really have the player base like other jurisdictions have. It’s just that our players don't spend as much as their players do. And that’s what will lead to efforts to do that, to try and grow that. I did point out on that last slide that only New York and California, the top leading states, don't offer a $50 product in their Scratchers portfolio.

All right. The fourth objective is elevate the customer experience for players, retailers, and internal customers. This objective was not part of our last strategic plan; however, it should sound familiar, as it was an objective for the current year's business plan, as we started to start focusing in on our customer experience, and it was part of our 2016 strategic plan. There were many initiatives that were very successful during that time period, and it's probably time now for a new generation of efforts along those lines.

Trying to get through this fast. Now, what customer experience is it's a little different than just customer service. Customer experience really deals with the whole customer journey, every touch point that a Californian has with the Lottery, whether or not the Lottery itself is behind that touch point. In some cases at retail, that's a touch point with the Lottery, even though we don't directly control that. So, it's every interaction with the brand.

That compares with customer service deals with one moment within that entire experience. It's usually in response to something that happened, you know, like a customer service line, whereas customer experience deals with the entire customer journey and every aspect that a consumer may touch the Lottery.

The reason why this is an important one is that external think tanks, they see that companies that lead in improvements in the customer experience that provide that really positive experience for their customers, they grow revenue faster. And companies, according to Forrester, companies that improve their brand reputation, which we are doing, as well as combining that with a strong customer experience effort, together they have a compounding effect, so they have a three and a half times higher revenue impact than companies that are laggards in terms of CX and brand reputation.

And the reason for this is that when you have good experiences and really a positive reinforcement from those experiences, they turn somebody who tries the product into a more regular customer, or they turn loyal customers into advocates for the brand. That's how customer experience leads to greater loyalty and ultimately to greater sales.

Now, we do customer satisfaction studies, and based on these studies, we're probably on par, around the average level, or slightly below average only, and that's why we want to improve those efforts to have our players, you know, feel more than just satisfied with the touch point, to really feel good about it.

And similarly, our retailers, you know, 75 percent of our retailers are at least satisfied with their overall relationship with Lottery, but we feel it's not enough. We really want them to be brand advocates, and so we want to boost that percentage.

And the thing that's nice about this objective, in particular, it really can tie together everybody within the Lottery because everyone in the Lottery may not directly interface with a player or directly interface with a retailer, but they would interact with somebody internally who does directly work with a player or a retailer.

So, I'm a prime example. My group does not directly, you know, work with players or retailers, but we have many internal customers who do that. And so we can provide service by providing them greater information to help them in their decisions and working with players or retailers and so forth. So, this is an objective I feel that really can help with our mission, vision, values program and really embody a kind of a spirit that everybody can work together on because we all are tied to, you know, customer experience because all have a customer, whether it's directly or indirectly through our Lottery colleagues.

And the last objective, now this objective also isn't related to any objective in our most recent strategic plan. However, really, this is one of our most critical ones to meeting our financial objectives of growing contributions to education to surpass Florida, and that's because, as we talked about earlier, sales have been relatively flat. So, if you look at those two years between those two time periods, sales grew just 5 percent.

But during those same years, our operating costs grew by 18 percent. Now, operating costs includes our administrative expenses, but it excludes game costs, like printing the tickets and the money going to our gaming vendor, as well as retailer compensation, so it's really what's spent by the Lottery. And so those costs have gone up by a greater rate than our sales.

And the consequence of these lines converging or passing one another, excuse me, is the consequence, as Commissioner Mills talked about earlier, is a reduction in our marketing budget, and this can directly impact Lottery sales. So that's why this objective is so critical for the Lottery to able to, you know, flatten that growth in operating costs. Obviously, with inflationary pressures, it's very difficult to eliminate it or reduce it, but at least try and get it more in line with our sales growth.

And that's why, while in the past, the strategic plan, you know, most of our objectives dealt with how do we boost sales. Here, to maximize our contributions, we really have to look at not only boosting sales, but how do we minimize our expenditures.

So, I want to talk a little about what this is and is not about. So, what it is going to do is going to review, and then hopefully modify or re-engineer some programs and processes, so that way we can either lower costs or reduce the staff time devoted to those programs or processes so that staff have more time to work on revenue generating projects.

It's probably a good time to look at these things. As you probably are aware, I've been here at the Lottery for many years, and so a lot of programs and processes were put in place many years ago, when our sales might have been like at the $3 billion mark, you know. Now that we're at the $9 billion mark, maybe, you know, a little step here magnified three times, or 6 billion times more might need to be reengineered.

One thing I do want to point out here in a public setting is modernizing, trying to find the right words for everything. Modernizing is not, I repeat, not about moving into online wagering because that's still not permissible legally. So this is looking at modernizing processes and projects and programs, and so -- but it's not about online wagering.

And with that, those are the five objectives. And so, at this time, I'm happy to answer any questions, and then seek your approval.

CHAIRMAN GARRISON-ENGBRECHT: Thank you, Jim. Does any member of the public want to address the commission at this time regarding Action Item 9e, Strategic Plan?

Do any of the Commissioners have any questions or comments regarding 9e Strategic Plan?

VICE CHAIR MILLS: Thanks, Jim, for the presentation, and also I really appreciate how you've brought us along over the past several months. Every time I hear it, I hear something new, and like, oh, now I understand that better. Just a couple of comments and some questions.

As I was listening to you talk about the threat of the competition of the prediction markets and how they're like leaning into sports and pop culture and like celebrity ambassadors, I'm not a marketing expert, but I do feel like we've been doing that over the years, I believe. It seems like there's even more opportunity to kind of lean into like the Jaws, the movies, some of the pop culture. And then, I mean, just thinking about the opportunity for celebrity ambassadors, I mean the thing that we have is our mission, right, to really lean into. And if there was an opportunity to, you know, find some, you know, California-based celebrity that is a big fan of public education in California that would, you know, support the Lottery, that might be a cool opportunity. Again, I'm not a marketing expert, but that sort of is just the things kind of going through my head.

So it just seems like it does seem like those prediction markets are a significant threat, as you -- like you spend a lot of time on it. I’m like, okay, why is he spending so much time? So I just want us to kind of think about how we keep up with that and watch what they're doing to make sure that we don't get left behind because they will have more money than we have, and so we're going to have to get really, really creative on how to not get left behind there.

And I think our public awareness campaign can play into that as well, and I don't know how these marketing cuts impact the public awareness campaign, but I would urge us to make sure we maintain some dollars there, because the other charts you showed, showed that the public awareness campaign, the education campaign, has been super, super impactful and has actually made a difference on increasing sales.

And then I have a couple questions. You talk a lot about the barrier of cash on hand, and can you just remind me, like what are the opportunities to get past that barrier? What can we do?

DEPUTY DIRECTOR HASEGAWA: The biggest one, and I think it was got alluded to in the Director's report, is debit cards can be used for purchases. And so that would be the pilot would be done, so that'll be describing the business plan portion, but starting off with our own vending machines in September, so.

VICE CHAIR MILLS: Okay.

DEPUTY DIRECTOR HASEGAWA: So, debit cards are the ones. We definitely don’t want to pursue like credit cards because of the image of that. But yeah, debit cards can be done. Down the road --

VICE CHAIR MILLS: Okay. And that is going to show up in the plan when we hear the plan, so that is --

DEPUTY DIRECTOR HASEGAWA: Uh-huh. That one actually, because it's been part of our plan for a while, all these barriers. Obviously, that one takes a lot longer to -- because it involves our gaming system.

ASSISTANT DEPUTY DIRECTOR KASSIS: And I just wanted to add to that, while we are doing the pilot, one of the things that we have to keep in mind is if someone uses a debit card, there's a fee associated with that.

VICE CHAIR MILLS: I see.

ASSISTANT DEPUTY DIRECTOR KASSIS: And we can't pass that fee onto the vendor, or excuse me, to the consumer, and so that's technically then cutting into our profits. And so the purpose of the pilot is to determine, are we simply transferring people who would normally pay with cash to debit cards, or are we actually bringing in new consumers?

VICE CHAIR MILLS: I see.

ASSISTANT DEPUTY DIRECTOR KASSIS: So, that'll help us kind of figure out what we want to do in the future.

VICE CHAIR MILLS: Okay. That's super helpful. Thank you for that reminder. And then my other question is on the $50 ticket. I've heard you talk about that a couple of times to the only one of two states that do not have a $50 ticket. Is that something we're considering?

DEPUTY DIRECTOR HASEGAWA: One of two states that are top selling. There are a lot of other states, but they're not, as -- they're not in our league, I guess you could say. But one of the top selling states, yeah. New York and us in California are the only two top selling states that don’t. And that, as we mentioned last meeting, and will be talked about in the business plan part, research and evaluation again to measure the profitability, not just the sales level --

VICE CHAIR MILLS: I got you.

DEPUTY DIRECTOR HASEGAWA: -- is part of what's going on now and into next year.

VICE CHAIR MILLS: Okay. Thank you. Sorry, it's hard to -- it's a lot. It's hard to remember from meeting to meeting. Thank you for that reminder.

And then the last thing and this may come up, you've heard me say this a couple of times, but on the part about the cost savings and creating efficiencies, I would again just encourage us to really lean into technology and opportunities for technology enhancements and utilization, and also kind of the responsible utilization of AI, as that continues to emerge. And that concludes my comments.

DEPUTY DIRECTOR HASEGAWA: With respect to the first point, it does make -- once a company gets into like our space of kind of more entertainment and wagering and so forth, then it's trying to point out the differentiation, so it's not only about the mission, but about the fact that our draws are so secure. I mean, like, if you looked at some of those, and there have been some controversies already with those prediction markets of people -- of insider trading. Because some, you know, if you look at some of those events, like who's going to be the bridesmaid at Taylor Swift's wedding, some people obviously know the answer to that. I mean, you're hitting right there.

So I think the security and integrity of our games, as well as the public beneficiary, in our case education, does provide points of differentiation from us to like these prediction markets. Because they are kind of infringing on our lighter form and more entertaining form of wagering than, say, other type of gambling. And also, I think that's an area to also emphasize. Thanks.

CHAIRMAN GARRISON-ENGBRECHT: Jim, this is more of a comment. I really appreciate the work, and I know we've revisited this a few times. I appreciate the fine tuning and refinement throughout this process, and I think that one thing I'm really excited about, I think this has been a topic conversation I think since my arrival, but what you described in your presentation as the customer experience, and looking at beyond kind of the moment of transaction and that moment of what you described as customer service, which I think we've all experienced good customer service and bad customer service. But in looking at that total experience, which I think is reflective of our employee satisfaction rates, how we work with vendors and public perception.

And so you can start to see some of these verticals come together, and how we are able to remind our community and stage of our beneficiary, our commitment to maximizing education, supplement education, funding of education, but also the importance of our team and everyone who interacts with that. You know, like you often serve on kind of behind the scenes and gathering this information and data for us, but it's just as important as our vendors out there, or our district offices, the people who transport our products.

So, I think that you mark here kind of the lowest cost marketing channel, but word of mouth, becoming an advocate. Someone who's played, enjoyed it, tells a friend that they also enjoyed it. I think that there's some really great opportunities in this specific objective. I'm really excited to see come to fruition. So, thank you for adding this one for this particular strategic plan, as we kind of embark on some new highlights and some new opportunities as we move forward. So, I'm really excited about this one.

DEPUTY DIRECTOR HASEGAWA: Yeah, I am, too. Hopefully, it really becomes not just like something in our strategic plan. It really becomes part of our corporate culture.

CHAIRMAN GARRISON-ENGBRECHT: Absolutely. Thank you. Do I hear a motion to approve Action Item 9e, Strategic Plan?

COMMISSIONER ALVIDREZ: Move to approve.

VICE CHAIR MILLS: Second.

CHAIRMAN GARRISON-ENGBRECHT: Will the secretary please call the roll?

MS. OSMAN: Commissioner Mills?

VICE CHAIR MILLS: Yes.

MS. OSMAN: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. OSMAN: Commissioner Dungca?

COMMISSIONER DUNGCA: Yes.

MS. OSMAN: Chairman Garrison-Engbrecht?

CHAIRMAN GARRISON-ENGBRECHT: Yes.

DEPUTY DIRECTOR HASEGAWA: Thank you.

CHAIRMAN GARRISON-ENGBRECHT: Thank you, Jim.

Well done.

The next item is Action Item 9f, Fiscal Year 2026-2027 Business Plan.

ASSISTANT DEPUTY DIRECTOR KASSIS: Good morning.

CHAIRMAN GARRISON-ENGBRECHT: You're going to tell us how we're going to get this done.

ASSISTANT DEPUTY DIRECTOR KASSIS: Exactly. I got all the flashy pictures. Okay. So today I'll be requesting your approval of the Annual Business Plan for Fiscal Year '26-'27. Last month's commission meeting, I showed you a preview, and now we'll get a little bit more detail.

So, the goal of our annual business plan is to communicate our tactical plans and priorities for the year, demonstrating our thoughtful and deliberate steps that we will be taking in '26-'27 to achieve our mission and goals. It'll serve as an internal guide as well as a tool for transparency.

Given the importance of our annual business plan, the development process is thorough and thoughtful. It actually started back in August in conjunction with the strategic plan development. As Jim shared with you, there were extensive strategic reviews that helped identify the direction the Lottery would take to achieve our goals and mission in the next three to five years, and by November we had our proposed strategic plan and objectives. Thanks for proving that. And since this is the first year of that new plan, those are also the specific objectives we are proposing for the fiscal year ‘26-‘27 Annual Business Plan.

Once those were identified, divisions enterprise-wide started working on their proposals for efforts that aligned to those objectives. More than 200 Lottery employees participated in the stage and process. All of these ideas were documented, reviewed, evaluated on their time sensitivities, dependencies, risks, resources, costs, and, of course, the impact to our mission. And here we are now, presenting these initiatives to you as part of the proposed business plan for approval, and if approved, we'll be sharing it out with staff starting next month.

So, moving forward in this presentation, I will break down each of the five strategic objectives and the programs and tactics within. First, being reducing reliance on big jackpots to meet our financial goals. To bring new excitement to Super Lotto Plus, we have plans to make our first enhancement since 2000. This game currently draws twice a week on Wednesdays and Saturdays, and we are considering a third draw on Mondays to coincide with Powerball. Adding draw days has been successful for us in the past, and the last time was in 2021 when Powerball added Monday draws, and that led to sales increasing by 20 percent for jackpots below 250 million. Currently, the enhancements may be as late as June, so unfortunately we won't see those sales scenes this fiscal year, but it does set us up for the future.

We are also planning to make it more convenient to play at all jackpot levels with a pilot that will bring jackpot games to the checkout aisle at grocery stores and supermarkets, along with the new convenience of not having to walk to the vending machine, signage in lane is anticipated to make these games more top of mind as well. The pilot will be up to 100 lanes and is expected to launch in 2027. We will be thoroughly reviewing the performance and the profitability to identify the best way to roll it out.

We're also planning to run more Hot Spot promotions, since those have been successful. We're giving players more excitement, more buzz, something to talk about, as well as the higher price payouts.

At the start of the fiscal year, we are also going to be launching our new crossover Scratchers game Super Lotto Plus Multiplier, which you see here. It has a beautiful California sunset ombre look that matches our Super Lotto Plus advertising, and so it really connects the two. Along with the top prize of $500,000, players also have the chance to win five Super Lotto Plus quick pick plays, so that really reinforces that crossover appeal, and hopefully brings new players over to Super Lotto Plus.

Our most straightforward method, of course, is to continue our advertising of the jackpots at all levels, really boosting the awareness. This will be through our effective jackpot alert communication strategy and the acquisition of new permanent jackpot billboards, such as the ones you see here. Both increase awareness of the jackpots and act as reminders to those who want a chance to win millions, even if it's not billions. And of course, we will continue researching and monitoring performance of other games in the industry for other innovative opportunities for the future.

Next, we have our efforts towards eliminating barriers to play for infrequent Scratchers players. As both Jim and Harj shared, we've seen success in our efforts to promote the fun and entertainment of Scratchers, rather than just the win. We'll continue those efforts, offering fun and easy to play games and refresh our advertising as needed to keep it exciting and relevant.

And in the spring, Godzilla will be stomping into stores. Offering this game will give us the opportunity to lean into that iconic imagery and offer unique second chance promotions, and hopefully this movie villain will appeal just as much as its predecessor, Jaws.

We'll also be working towards eliminating barriers related to trust, awareness, and ease of purchase. We will continue showing how schools use Lottery funds to build trust, combat skepticism, and promote transparency with the California public. This won't just come through paid advertising, but will also leverage key moments, such as big player wins, to weave in our story in a relevant and memorable way.

A couple other pilots we have slated will be some new large digital menu boards and digital play stands, and that will boost awareness a great deal, so they'll really draw the eye, create excitement, and let players know the fun that is available for them. We'll also plan to do more research on how to ease the purchase decision at retail, so don't be surprised if we have more pilots headed your way for approval in the coming years, with the goal to make buying Scratchers less cumbersome and overwhelming for the light players.

And finally, we'll be launching our exciting new pilot to accept debit card payments at our Lottery vending machines in our first quarter. It will have up to 450 pilot locations among the CVS, Vons, and Safeway chains, as well as independent retail partners. Players will be able to build out a cart selecting which Scratchers and draw games they want to buy. Once they've finalized their choices, they can either insert cash or pay with a debit card that you see here on the screen. Then they would use the pin pad to finalize the purchase before their tickets are dispersed. So this will be a super easy and familiar type of purchase for a modern consumer, but it's revolutionary for a lot of Lottery players who are used to needing cash on hand to purchase from vending machines.

The performance of this pilot will be analyzed on a variety of metrics, including sales, retailer satisfaction, player adoption, staff efficiencies, and of course profitability. As Harj mentioned, there are fees and extra incremental fees that we don't normally encounter with cash purchases, and so we will be evaluating whether this is profitable and how we can roll it out if possible in the future.

To achieve more immediate Scratchers sales gains, we have several efforts planned this coming year for our core players to compete for their entertainment and gaming dollars. And for the core players, it's all about our games and Second Chance. The Stratchers product plan will be doing the heaviest lift. It'll include three $30 games and two $40 game launches. That's one additional game at each price point compared to this year.

Along with these changes, more games throughout the year we launched with themes that have proven to have strong core appeal, and the Scratchers team has developed an exceptionally great launch plan to ensure there are always games available that appeal both our loyal and light players.

Our Second Chance Program will have further security, such as multifactor authentication, and we will roll out the ability to sign up for direct communications in a faster and more user-friendly way.

Additionally, analysis and plans for a potential $50 ticket will be conducted in anticipation of a launch in future fiscal years. It's been successful in many other jurisdictions, such as Florida, Texas, and Arizona, and in order to ensure the best success of a game like this in California, extensive research and analysis is currently underway to understand what will resonate the most, what will provide the most profitable prize structure, and minimize cannibalization to the other lower price points. Timing is going to be very important for us as we build out our $40 playership and ensure there's enough value in this game to shift some players to the new price in a responsible way.

We have several initiatives planned to support our fourth objective, elevating the customer experience for our three core groups: players, retailers, and internal customers. To best support this objective over this year and future years, and ensure enterprise alignment along the way, a cross-divisional committee will be taking a deeper dive into the Lottery's current state of CX for each of these groups. This evaluation will look at prior research, conduct new research, and review industry best practices.

Our goal will be to determine what the Lottery strategy should be to improve the customer experience, and that will bring the most value to the Lottery for each of the three groups. The team will also identify and plan how these strategies will be measured to demonstrate its successes and challenges that it may face over the next three to five years. With this thorough study, cross-divisional input, deliberate planning will create a priority framework for future years' efforts will align, setting the Lottery up for maximum customer experience improvements and full integration into our lottery culture and operations.

A key effort in the coming years, we'll be implementing several improvements to the prize claim process. Work will begin on implementing a method for players to submit price claims and receive price payments electronically. Finally, entering the modern age to provide a more convenient method from our current paper forms and mail checks.

Additionally, while work is underway for electronic claims and payments, we’ll continue to enhance the paying claims at the district office program. Players with prices up to $5,000 would be able to get same day payments, an increase to the $1,000 limit we have today.

We have more efforts coming the way for our players. These are all implementation efforts for this coming fiscal year. We'll be upgrading the digital signage of the district offices, as we have done here at headquarters, to ensure consistent and relevant messaging.

We'll be launching a winner awareness map on the public website, giving the public the ability to see where winning tickets were sold throughout the state, promoting transparency and building trust, both of which have shown to improve general satisfaction with the Lottery.

Another pilot headed next year to players who purchased their own vending machines will be the ability to cash in their prizes from winning tickets to purchase new tickets for that same price value. This means they'll be able to scan if they've won and then decide if they immediately want to use all those winnings to buy additional games. This feature is available in 20 other lottery jurisdictions, so we anticipate there will be a significant player experience improvement.

And the last two here you've seen in prior slides, but you can pick up that some initiatives kind of cross over different objectives, and so we do anticipate cashless payment pilot, and the inland sales pilot will also be improving the player experience.

For retailers, many will see upgrades to their lottery equipment, and for prospective retailers, a digital application will be developed. We will also be expanding Smart Count, which is the Scratchers inventory management tool that Harj mentioned in her update, so this gives the retailers the ability to deactivate their Scratchers tickets at the end of the day, so none of the tickets can be used until they're reactivated in the morning when the clerks return. So, in case there are any thefts that happen overnight, really all they're stealing are pretty shiny paper.

Since the Lottery's ability to serve the public and drive funding for education depends on ensuring our workforce has the tools, support, and environment they need to be successful, there are several experience improvements headed for the employees next year. There will be enhancements to data systems and reporting. We will also continue advancing our mission, vision, and values work. This is an ongoing effort to promote an informed, considerate one Lottery culture that fosters teamwork and employee engagement.

We will also be working to further enhance our internal communications, as clear and accessible communication ensures people feel informed, connected, and engaged, especially during periods of growth or change. Planned safety tours, onsite evaluations, and continued facility improvements will occur statewide to help us maintain a safe and healthy workplace across all of our lottery facilities. All of these initiatives will work together to create an environment where employees feel supported and empowered by each other because when our people thrive, so can our mission.

And for our last objective, transform and modernize Lottery programs and processes to reduce costs and devote more time to revenue generating initiatives.

First, we will explore ways to reduce staff time and infrastructure costs associated with maintaining our public website. While the website is a viable tool for communicating with the public, it does take significant work to update and upkeep. By conducting a thorough cost benefit evaluation of alternative platform options, next year we aim to reduce this workload, so staff can redirect more of their time toward initiatives that directly support revenue generation.

In addition, modernizing the retailer application form from a paper-based process to a digital submission will reduce manual entry, minimize errors, and strengthen data security. These efficiencies not only improve accuracy but also free staff from time-consuming administrative tasks.

So, again, enabling them to focus on more support or retailer support activities and other activities that can drive higher sales. Human Resources will also continue expanding its digital services and processes to support smoother and more effective operations.

And finally, similar to the customer experience directive, we'll develop an enterprise-wide plan and roadmap. This effort will involve reviewing and assessing various programs and processes across the Lottery to determine which should be prioritized for improvement, focusing on those that will most effectively reduce time and costs when transformed or worked, maximizing the value of our operational costs and staff time.

And to wrap up, here's a snapshot of our roadmap. I am not going to go over every bullet point. I just did that. However, this gives you a high-level overview of what we have planned for this coming fiscal year. It's organized by time instead of objective.

So you can see that we have initiatives, programs, work slated in every quarter to help drive our mission, as well as many that are going to occur year-round. So, with your approval of this plan, we believe we’ll achieve our mission next year, maximize our funding to education, and provide over $2 billion in supplemental funding to education. Questions?

CHAIRMAN GARRISON-ENGBRECHT: Thank you. Does any member of the public want to address the Commission at this time regarding Action Item 9f, Business Plan?

Seeing none, do any Commissioners have any questions or comments regarding Action Item 9f?

COMMISSIONER ALVIDREZ: Thank you so much for the presentation. I appreciate it. A couple of quick questions. And you're right that I do hear a lot of the overlap, particularly as it relates to the cashless piece. For those pilots, what is the length of time for the pilots? What's the slated time? Is it a six-month project? Is it dependent on sample size? How are we determining kind of the parameters around the pilots from a time perspective, time lapsed.

ASSISTANT DEPUTY DIRECTOR KASSIS: Yeah. So for inline and cashless, they are both going to be a minimum of six months for the pilot. Part of that is to get as much adoption as we can to really see the incremental gain potential in those pilots. So both of them will take a little bit of time to make sure that we get enough people using them, and we can actually see some sales benefit, so that we can analyze then the impact to the bottom line.

The cashless one also, we may want -- since we're not doing mass advertising for these smaller pilots, right? We are going to, if the duration also includes some conditions, like we want to go through, like the holiday period, when people were coming in for gifts and buying Scratchers gifts and using the vending machines more, so we're trying to include some periods where that alone, where we know we'll have higher traffic, and then, therefore, increase the option.

COMMISSIONER ALVIDREZ: Thank you for that.

ASSISTANT DEPUTY DIRECTOR KASSIS: Uh-huh.

COMMISSIONER ALVIDREZ: Last question about the safety and facility tours. Who are they targeted at? Is that internal? Is that external? Is that both? I saw reference to safety and the safety and facility tours.

ASSISTANT DEPUTY DIRECTOR KASSIS: Yes. So there will be some human resources tour, the human resource staff will go to the different facilities and be checking on the safety compliance and safety infrastructure there at the different facilities, and then put in the effort to start the work on any improvements that need to be --

COMMISSIONER ALVIDREZ: So it’s an internal.

ASSISTANT DEPUTY DIRECTOR KASSIS: Yes, an internal. Yeah.

COMMISSIONER ALVIDREZ: Got it. Thank you.

ASSISTANT DEPUTY DIRECTOR KASSIS: Uh-huh.

VICE CHAIR MILLS: And just to add to that, our SLED team, or security and law enforcement team, does do the physical security at all locations.

CHAIRMAN GARRISON-ENGBRECHT: Do I hear a motion to approve Action Item 9f, Fiscal Year 2026-2027 Business Plan.

COMMISSIONER ALVIDREZ: Motion to approve.

COMMISSIONER DUNGCA: Second.

CHAIRMAN GARRISON-ENGBRECHT: Will the secretary please call the roll?

MS. OSMAN: Commissioner Mills?

VICE CHAIR MILLS: Yes.

MS. OSMAN: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. OSMAN: Commissioner Dungca?

COMMISSIONER DUNGCA: Yes.

MS. OSMAN: Chairman Garrison-Engbrecht?

CHAIRMAN GARRISON-ENGBRECHT: Yes.

Thank you so much.

ASSISTANT DEPUTY DIRECTOR KASSIS: Thank you.

CHAIRMAN GARRISON-ENGBRECHT: The next item is Item 9g, Fiscal Year 2026-2027 Budget.

DEPUTY DIRECTOR BUCHEN: Thank you. And apologies in advance to Paula, who has to wait. Okay. I'm here to present the Lottery's Fiscal Year 2026-27 budget for your approval. The Lottery's budget does not take any funding from the state or local governments or federal governments, and is solely funded by our operations, with the source of funding being the sale of lottery tickets. To ensure that funding for education is maximized annually, we zero based the Lottery's operational expense budget to certify all included costs are necessary for our business operations, and we confirm that funded initiatives align with both the latest strategic plan and the current year's business plan.

Although my presentation is a fairly high-level summary of the major elements included in our budget and the reasons for the year over year funding changes, I want you to feel confident voting on the budget, knowing the level of detail, analysis, and scrutiny that goes into developing the Lottery's annual financial plan. So, all right, let's get into it.

Any questions?

(Audience Laughter)

DEPUTY DIRECTOR BUCHEN: All right. There's way too much to take in on the slides, so I'll walk through each of the sections of the budget separately.

This slide and the others I will cover today compare our estimated revenues and expenditures for the 2026-27 fiscal year to our estimate of how we'll end the current fiscal year two weeks from today on June 30^{th}. As I go through each of the budget's main sections, I want to highlight the changes from the draft budget that I presented last month. And just a reminder that the dollar amounts on most of the slides are in 1,000s. I will note the slides that reflect a different dollar scale.

As you know, the Lottery's budget is a basic formula comprised of four major elements: Ticket sales revenue minus the associated prize expense minus our administrative expenses equals our contribution to education.

So, for the first of those major components, sales, you can see at the bottom of the middle column that we're projecting a total of $9.36 billion in sales revenue for fiscal year 2026-27. The bottom of the far-right column shows that this is a slight increase of $36 million from the total sales level with which we're projecting to end the current fiscal year, and this represents a 0.4 percent increase.

Starting at the top with Scratchers, the fiscal year 2026-27 budget includes a sales goal of $7.04 billion. This represents an increase of $140 million over the current fiscal year. As I explained when I presented the draft budget last month, we've seen Scratchers sales falling short of our goal through most of the second half of this current fiscal year. Because this appears to be a nationwide trend of softening instant ticket sales, it's likely due to broader factors like economic conditions and greater competition from other forms of gaming and entertainment that Jim spoke to.

To help reverse this trend, our Scratchers plan for the coming fiscal year includes an additional game launch in both the $30 and $40 price points, as Kayla described with the business plan. Although Scratchers' goal of $7.04 billion is unchanged from what I presented in the draft budget last month, our Scratchers projection for this current fiscal year has increased by $39 million based on more recent actuals, which causes the year over year growth to be a little less.

The second row of the slide shows that the estimated year over year growth in Scratchers sales will be more than offset by a projected year over year decrease of $268 million in our Powerball sales. As I explained last month, this year over year decrease is primarily due to there being 10 draws for which the advertised Powerball jackpot was $1 billion or more in this current fiscal year, which helped to push the estimated rollover luck in this game to the 73rd percentile.

This rollover luck projection is created by considering average California and national Powerball sales at each jackpot level, the corresponding estimated board coverage, and the average growth in jackpot levels between draws. This means that 73 percent of the scenarios in the

1,000s of simulations that would run would be less favorable in terms of rollovers and high jackpots, while only 27 percent of scenarios would yield more draw-to-draw rolls, leading to higher jackpots.

For the coming fiscal year, the sales goal of $565 million for Powerball assumes the 50th percentile of rollover luck, which means there's an equal chance for more draw-to-draw rolls leading to higher jackpots as there is for fewer draw-to-draw rolls leading to lower jackpots. Compared to the draft budget I presented last month, the Powerball goal for the coming fiscal year is $35 million higher due to updating the simulation model of current sales and average growth levels between jackpots.

Looking at the next line, the budget includes a sales goal of $640 million for Mega Millions in 2026-27, which is also based on the 50th percentile of rollover luck, and this goal is unchanged from the projection we'd included in last month's draft budget because the simulation model already reflected current sales and roll patterns for Mega Millions.

The next line shows the year-over-year increase -- or, sorry, with Mega Millions, the year-over-year increase of $149.5 million is primarily due to us experiencing abnormally poor rollover luck in the current fiscal year. Specifically, the rollover luck for Mega Millions in this current year is estimated to be at the 13th percentile, even assuming the jackpots continue to roll through the remainder of this month. This means that 87 percent of the scenarios in the simulation would yield more draw-to-draw rolls, leading to higher jackpots, while only 13 percent of the scenarios would be less favorable in terms of rollovers and high jackpots.

Now, moving to the next line, the budget includes a sales goal of $240 million for Super Lotto Plus. This year-over-year increase of $6.5 million is a function of sales in this game in the current fiscal year coming in a little lower than projected, which is not expected to repeat in the coming fiscal year. And although the goal of $240 million is unchanged from what was included in the draft budget I presented last month, the current year projection decreased slightly based on more recent actuals making the year of year increase a little larger.

And as shown on the next line, the 2026-27 budget includes a sales goal of $455 million for Hot Spot, and this is $5 million higher than reflected in last month's draft budget due to the assumption that we will run one or more promotions in the coming fiscal year, similar to the Hot Spot promotion we ran in March and April of this current fiscal year. The current year projection for Hot Spot is increased by $10 million compared to the draft budget, as we continue to see stronger than expected sales after the promotion ended at the end of April. The combination of the estimated sales in the current fiscal year increasing by 10 million, while the projection for the coming fiscal year is increased by 5 million, results in the same estimated sales level for both years.

And lastly, the daily games, comprised of Fantasy Five, Daily Three, Daily Four, and Daily Derby have a combined sales goal of $420 million for fiscal year 2026-27. This represents an increase of $8 million from the projected combined sales in the current fiscal year. Although the combined goal of $420 million is unchanged from what was included in the draft budget last month, the current year projection in these games increased slightly based on more recent actuals, making the year over increase a little less. And this year-over-year increase is primarily due to Fantasy Five and Daily Derby sales in its current fiscal year coming in a little short of goal, which is not expected to repeat in the coming fiscal year.

To help provide context to our sales estimates for the current and coming fiscal years, the next slides I'll go through show how our actual sales for the last eight fiscal years compared to our 2025-26 and 2026-27 projections for each major product category.

So this slide shows our Scratcher sales in billions of dollars, and you can clearly see the lift in sales we got following the onset of the pandemic, beginning with the 2020-21 fiscal year, as other forms of entertainment and leisure weren't available, or consumers didn't feel comfortable participating in them. While we've been successful in maintaining our Scratchers sales to well above pre-pandemic levels, this shows both the plateauing sales and the modest growth projected in the coming fiscal year.

This slide includes multiple displays of sales of the big lotto games we offer, which include Mega Millions, Powerball, and California Zone Super Lotto Plus. All dollar amounts on this slide are in millions. The solid blue bars show the total combined sales of the three games, and you can see there's great variability in many of the years. The red line, just below the $1.4 billion mark, is the simple average of the combined sales for all 10 years displayed on the chart, and the line graphs below that represent the sales of each individual game.

The first year on this chart with anomalous sales was the 2018-19 fiscal year. Looking at the line graphs, you can see our Mega Million sales, represented by the orange-colored line, were unusually high that year due to there being two draws for which the advertised jackpot was $1 billion or more. And this was only the second time that a rolling sequence in the multistate games had crossed the $1 billion threshold, and there was still a considerable frenzy with jackpots of that level. This resulted in our Mega Million sales that year being more than $736 million and our sales in the three games combined exceeding $1.5 billion dollars.

The following year is the next anomalous year. Our combined sales for the three games totaled only $888 million that year, which was only around $150 million higher than just our Mega Million sales in the previous year. These significantly lower sales were due to the perfect storm of there being unusually low jackpots throughout the year in both multistate games, as well as mandated stay-at-home orders at the onset of the pandemic that temporarily shifted consumer behavior to only going to the store for essential items like hoarding toilet paper rather than discretionary items like a Lottery tickets.

In both the 2022-23 and 2023-24 fiscal years, our combined sales in these games totaled $1.82 billion and $1.86 billion respectively. And looking at the line graphs, you can see we had very strong sales in both Mega Millions and Powerball in both of those years. This was due to there being seven different draws between the two games with an advertised jackpot of $1 billion or more in the 2022-23 fiscal year and 13 such draws in the 2023-24 fiscal year.

This represented a statistically rare high number of jackpots over $1 billion, and I'll show more detail on just how much of an anomaly that was later in my presentation. And you can see that our projections for the three games combined in both the 2025-26 and 2026-27 fiscal years are higher than the average we experienced over this period.

The last thing worth noting on this slide is how relatively stable our Super Lotto Plus sales have been over this period, and some of the flatness reflected on the gold line is due to the scale of this chart, but clearly there have not been wild swings in our sales of this game during this period, showing that Super Lotto Plus is a steadier workhorse.

And this slide shows our Hot Spot sales in millions of dollars and clearly shows the positive sales trends we've seen over this period, as more Californians have heard about and become familiar with the Hot Spot game. And it also reflects the sizable jump in sales we got from running the promotion in the current fiscal year, and projects that level of sales will continue into the coming fiscal year.

And the final slide showing our sales trends is for the daily games. This chart is similar to the lotto game slide, in that the solid blue bars show the total combined sales of all four daily games, while the line graphs represent the sales of each individual game. And although all dollar amounts on this slide are millions, note that there are two different scales on each side of the graph to better show the variability among the games.

So, focusing on the combined sales first, the blue bars, you can see we experienced a fairly significant jump following the onset of the pandemic, beginning with the 2020-21 fiscal year, similar to what we experienced with Scratchers. Although our combined sales in these games have slightly decreased since then and have remained relatively flat, they're clearly still higher than the pre-pandemic levels.

Now, looking at line graphs, you can see that our sales in both Daily Three and Daily Four have followed a very similar trend through these years, both increasing in 2020-21, decreasing slightly following that year, and then flattening in the remaining years, including in our projection for the current and coming fiscal years. While both of these games offer a better chance of winning as compared to our other draw games, neither offers a significant top prize, which explains the lack of big swings in these two games. Players of both our Fantasy Five and Daily Derby games, on the other hand, are typically chasing the top prize, which explains sales volatility from year to year.

You can really see this with Daily Derby represented by the green line, and it's much less pronounced for Fantasy Five represented by the orange line, but this is mainly due to the scale of this chart. Since our Fantasy Five sales have ranged from just under four times to nearly nine times as much as our Daily Derby sales over this period, we couldn't find a scale that clearly showed the fluctuations in both gains in a single graph.

And before moving away from sales, I want to caution that there's a fair amount of uncertainty in our sales projections for the coming fiscal year due to the high level of inflation and economic uncertainty that still faces consumers.

The next area of the budget is price expense, which is projected to total more than $6.2 billion in 2026-27. This represents an increase of $88.4 million, or 1.4 percent from the current fiscal year and is driven by the overall year-over-year increase in sales. As I explained last month, this is disproportionately higher than our estimated year-over-year increase in sales since the products with the most significant projected growth, Scratchers, have a much higher price expense relative the product line with the projected year-over-year decrease in sales of the multistate games. So this causes our net sales after price expense, shown on the last row, to be a projected $52.4 million year-over-year decrease.

Compared to the draft budget I presented last month, prize expense for fiscal year 2026-27 is estimated to be $23.1 million higher, and our net sales after prizes is estimated to be $16.9 million higher primarily due to the increased sales projection, and the increase is in both Powerball and Hot Spot. All the other games were unchanged for 2026-27 compared to the draft budget.

So, the Lottery has a policy requiring the director to determine the prize payout levels across all games have been optimized for the coming fiscal year. Because Scratchers sales account for more than 70 percent of our total revenues, and we have more direct influence on the sale of these tickets, the Lottery considered several product plan scenarios for Scratchers with varying price point assumptions to identify the optimal mix yielding the highest estimated contribution to education.

The combined impact of this effort shows on this slide with the total projected price expense for fiscal year 2026-27 representing 66.7 percent of the total projected sales, and this is within the range of 65 percent to 67 percent that was recommended as being optimal in the analysis that was most recently conducted for the Lottery.

So with this, the director has determined that prize payout levels across all games have been optimized for the coming year. And you can also see on this slide that our current year prize expense is estimated to be 66.0 percent of total current year sales projection, which is also within the optimal range.

I'll now move on to our administrative expenses, which the Lottery Act capped at 13 percent of our total annual sales revenue. The first area of administrative expense is retailer compensation, which reflects the commissions we pay to our retailer partners for selling lottery tickets, cashing eligible winning tickets, redeeming free ticket prizes and replays, and earning incentive bonuses for selling certain tickets with very high prizes. Total retailer compensation is estimated to be $637.3 million in 2026-27, and this is an increase of $2.5 million or 0.4 percent from the current year projection and is a direct result of the estimated year over year increase in sales.

Also included within administrative expense and shown on this slide, are the gaming costs, which are used to pay our contractual gaming system provider and to print and distribute Scratchers tickets. These costs are estimated to total $179.1 million in the coming year, which is an increase of $11.6 million or 6.9 percent from the current year projection. As with retailer compensation, the estimated year over year increase in gaming costs is driven by the increased sales projection.

However, as I explained when I presented the draft budget last month, Scratchers ticket delivery and support costs are projected to increase disproportionately higher than the estimated year-over-year growth in sales. And you can see on the last row of gaming costs that Scratchers ticket delivery and support costs are projected to increase by $12 million over the current fiscal year, and this represents a 20 percent increase, and it's primarily due to higher costs of producing Scratchers tickets, as reflected in our new Scratchers printing contracts resulting from the various economic conditions that significantly drove up prices since the previous contracts went into effect several years ago.

Compared to the draft budget I presented last month, retailer compensation and gaming costs for 2026-27 are projected to be $4.4 million higher, and this is attributable to the increased sales projection in Powerball and Hot Spot.

And the final area of administrative expense is operating costs. Before getting into the numbers, as I explained in my presentation last month, we were unable to fund every request that had merit in the coming fiscal year, as this would have resulted in an insufficient administrative spending reserve. I'll talk more about both of our reserves later, but each is needed to enable us to maintain operations if any combination of unforeseen cost increases or sales decreases occurs during the fiscal year.

We, therefore, reduced funding for almost all areas of our operating expenses and have earmarked these reductions within the administrative spending reserve. The largest dollar reductions were within the marketing budget plan, and to our education campaign, and I'll go into detail on those two areas in a bit, but they are just two of the approximately 20 items that we reduced. The other reductions include planned equipment purchases, event sponsorship, travel, training, overtime, and various contracts.

Excluding the reserves, our operating costs are estimated to total $316.9 million in the 2026-27 fiscal year, and again, excluding the reserves, the year over year increase in operating costs is projected to be $2.6 million, which is less than 1 percent. I'll detail this increase by going over this entire section line by line.

Now, spend most of my time on the first item within operating costs, which is personal services. This represents the salary and benefit costs of all Lottery employees, including temporary help and overtime. Personal services costs for 2026-27 are projected to increase by $7.3 million over the current fiscal year.

As I explained last month, this is primarily due to the combined effects of three main factors. Staff benefit costs are projected to increase by approximately 1 percent, which accounts for $3.3 million of the estimated year-over-year increase in this line item. The assumption that we'll maintain our recent progress in filling our vacancies accounts for an estimated $2.9 million of the $7.3 million year-over-year increase. And $2.1 million of the projected increase in personal services costs is to fund 23 proposed new permanent positions, which I will now go over.

Twelve of the proposed new positions, comprised of 10 field staff and two associated supervisors, are needed to ensure the vending machines and our route model retailers maintain an appropriate supply of Scratchers tickets and to manage the cash bins. The Lottery recently entered into a partnership with Walgreens, which will add a planned 448 locations to the route model. Two of the proposed new positions are in our Scratchers Inventory Management Center within sales and are needed to reduce the number of direct reports per supervisor, allowing for more individualized coaching and training, as well as to enhance oversight of key accounts.

Two of the proposed new positions are within our Information Services Technology Division's Gaming Application Support and Quality Management Unit, which we affectionately refer to as GASQM. One of these positions is needed to further mature the Lottery's quality assurance program, with a focus on developing, deploying, and maintaining gaming system operations, addressing audit findings, and enhancing quality improvements.

And the other GASQM positions needed to support the increasing number of ongoing and upcoming projects that the Lottery is undertaking. Two additional proposed new positions are needed in other areas of the Information Technology Services Division and are needed to manage the evolving complexities of the Service Now platform, and to address increased IT asset management.

Two of the proposed new positions are in our Security and Law Enforcement Staff Unit. One of these is a non-peace officer position needed to handle complex investigations of retailer employee crimes, serial suspects, and organized theft groups. The other proposed position is needed to better meet the theft unit's supervision demands.

One of the proposed new positions is in our Human Resources Division and is needed to help plan and prioritize efforts for the Lottery's Human Resources Service Center Project, including leading business requirements gathering, researching and resolving system issues, coordinating user testing and change management, providing training and supporting updates to related policies and procedures. One of the proposed new positions is in our Enterprise Project Management Office and is needed to support the increasing number and complexity of the Lottery's mission-critical projects.

And the final proposed new position is in the Lottery's Information Security and Privacy Office and is needed to provide direct support, guidance, and change management to Lottery employees on enterprise-wide security matters.

And lastly, two positions are being converted from limited term to permanent. Because funding for these positions is already included in the current year budget, these do not factor into the year-over-year increase in personal services costs. However, this does increase the Lottery's position count by two. Both of these positions are in our Finance Division, with one being an additional supervisor in the Chatsworth District Office that is needed to meet the demands of the paying claims of the district office program.

And the other limited term conversions needed to address the increased workload of properly reconciling and accounting for Scratcher sales in the Lottery's financial statements, as we've expanded into higher price points and are poised to introduce additional crossover games between Scratchers and draw games. While those two positions were initially established as limited term to enable us to meet immediate operational needs, we've confirmed that the workload for both positions is ongoing.

Compared to last month's draft budget, the projected increase in personal services costs for 2026-27 is $178,000 higher due to refined expenditure projections. It's important to note that the Lottery's total expenses for personal services in the coming fiscal year, including funding for the requested 23 new positions, is estimated to be just 1.6 percent of our projected revenues for fiscal year 2026-27, which highlights our operational efficiency.

Moving on to the second line within operating costs, the marketing budget plan reflects an estimated year-over-year decrease of $19.7 million. The majority of this decrease is to enable us to maintain a prudent. administrative spending reserve. Although $86.7 million included for the marketing budget plan for the coming fiscal year is $6.7 million more than was included in the draft budget, the estimated year-over-year decrease is larger since our projected marketing spent for the current fiscal year has increased as compared to what I presented last month.

We've earmarked this reduction within the administrative spending reserve. If our sales and expenditures through the first quarter of this coming fiscal year track closely to budgeted amounts, or if our sales are significantly higher than projected, we will be able to transfer more funding to enable a total amount that is comparable to the estimated marketing spend for the current fiscal year. And despite this reduction, the marketing plan balances the importance of both short and long-term goals across the fiscal year and represents a strategic allocation of resources across initiatives and segments to maximize funding for education and grow Lottery playership.

Another driver of the year-over-year decrease in this item is the shifting of funding from the marketing program to contractual services to continue the Lottery's mission-focused education campaign. In the current and previous fiscal years, this effort was handled through one of the Lottery's existing advertising agencies. We will instead have a dedicated contract for this effort, beginning in the coming fiscal year, to help boost public confidence and support of the Lottery and ultimately generate more supplemental funds for public schools.

Moving down to the contractual services line, we are projecting a year over year increase of $7.7 million, and approximately $6 million of this increase is the shift I just described from the marketing program to have a dedicated contract to continue the Lottery's education campaign. But as I mentioned, the education campaign is another area we had to reduce to maintain a prudent reserve. So we are earmarking a portion of the reserve for this purpose as well and will transfer more funding for the education campaign during the course of the year if we are able to do so.

The other main driver of the year-over-year growth in this line item is increased cost for certain information technology and security contracts. The projected contractual services costs for the coming fiscal year are $189,000 higher than included in the draft budget due to refinement, and the projected year over year increase in this line item is about $5 million higher than the draft budget, primarily due to lower estimated spending in this area in the current fiscal year based on updated projections.

Moving to the next line, depreciation costs have a projected year over year decrease of $310,000. This is primarily due to various equipment dropping off of the depreciation schedule, partially offset by new items coming on, such as the purchase of the new vehicles for our fleet that you approved earlier. The projected year-over-year decrease in this item is approximately $650,000 less than it was in the draft budget, and this is due to additional depreciable items being budgeted for the coming fiscal year.

Next is operating expense, which includes typical overhead costs, such as telecommunications, expendable equipment, facility maintenance and operations, vehicle operating costs, and utilities. This reflects a year over year increase of $7.6 million, of which approximately $6 million is due to a higher assessment by the Department of Finance to pay a pro rata share of indirect costs incurred by central service agencies, such as the State Controller's Office and the California Department of Human Resources.

The other factor driving this year-over-year growth in this line item is that some of the IT equipment we ordered in this current fiscal year will not arrive until the coming fiscal year, and we cannot recognize the cost until we take delivery.

Compared to the draft budget, the estimated operating expense costs for fiscal year 2026-27 are approximately $500,000 lower primarily due to reducing various requests for the coming fiscal year to establish a more prudent administrative spending reserve.

And this is a perfect segue, since the last two items within operating costs are the reserves. In the current year, we've zeroed out the reserves as we do not expect any transfer needed in the remaining two weeks of this fiscal year. For the coming fiscal year, pursuant to our most recent insurable risk analysis, we are maintaining a $5 million reserve for insurable risk to cover fiscal exposures for the areas of our organization that we are self-insuring. And shown on the next line, the 2026-27 budget also includes $78.6 million for the administrative spending reserve.

This amount represents 13 percent of our total sales projection, minus the sum of all the administrative expense items above this line, including the retailer and gaming costs from the previous slide. This administrative spending reserve acts as a safeguard against uncertainties, such as if our sales do not come in as projected, and it allows us to maintain operations when unanticipated needs arise during the fiscal year.

As I mentioned, we earmarked a portion of this reserve to account for items within the operating costs that we reduced funding, and as we closely monitor our sales and expenditures during the course of the coming year, we'll transfer more money from the administrative spending reserve to further drive Lottery's objectives, as we are able to do so.

So, looking at the bottom line, the total administrative expenses, which is the sum of retailer compensation, gaming costs, and operating costs, including both the reserves, is projected to be almost $1.217 billion in 2026-27, and this is precisely 13 percent of the $9.36 billion in projected sales. To be clear, even though the reserves make the bottom-line administrative expense tied to the full 13 percent of sales that were afforded in the Lottery Act, this budget projects that we'll actually spend 12.1 percent.

Over the last 10 completed fiscal years, our administrative spending has ranged from 11.3 percent of sales to 12.4 percent with the average being just under 12 percent. Pursuant to the Lottery Act, which prevents us from retaining earnings from year to year, any unspent administrative funds below the 13 percent cap, including unspent funds within both reserves, will be transferred in their entirety to education.

As I just noted, the Lottery typically spends below the cap each year and has transferred more than $1.7 billion in administrative savings to education to date. Compared to the draft budget I presented last month, and excluding the reserves, total operating costs for fiscal year 2026-2027 are projected to be $7.2 million higher, primarily due to additional investment in the marketing program.

And I’ve spent a lot of time talking about our administrative costs, so I think it's helpful to provide some perspective. Assuming the reserves remain unspent, adding up all but the purple slice of this pie reflects that nearly 80 percent of our projected administrative expense for fiscal year 2026-27 is comprised of reset of compensation, gaming expenses, and marketing costs. These three components of our administrative expenses are unique to our business operations and directly influence our sales and funding for education.

Our other operating costs, which represent more typical overhead, are estimated to account for just over 20 percent of our total administrative expenses and only 2.5 percent of total projected revenues for the coming fiscal year. And this highlights how well we manage the cost within our control, which enables us to maximize our contribution to education, which is, of course, the whole reason we exist.

Sales minus price expense, minus administrative expenses actually equals our net operating income. There are a few additional items that determine the final contribution amount. Specifically, both unclaimed prices and interest earnings on our cash sitting within the state treasury are mandated to be transferred directly to education. In addition, any unspent funds within both reserve items also will be transferred to education. In comparing the figures on this slide to last month's draft budget, our estimate of unclaimed prizes for both the current and coming fiscal years is unchanged.

However, in using the latest data available, our projection for the amount we'll earn from interest has decreased in both years. Looking at the interest income row of this slide, the $37 million we're projecting to earn in the current fiscal year is $4.5 million less than was included in the draft budget, and the $32 million we are estimating to earn in this coming fiscal year is $9.5 million less than was included in the draft.

Assuming both reserves remain unspent, the total contribution to public education is estimated to be $2.062 billion in fiscal year 2026-27, and although this slide reflects that it's a decrease of $84.7 million as compared to the current year projection, keep in mind that this product line for which we are better able to influence purchase behavior, Scratchers, are projected to increase in the coming year. Whereas our sales in the product line, for which we are primarily at the mercy of the luck of the draw, the multistate games, are projected to decrease. And since the price payout in Scratchers is higher than in the multistate games, this leaves less funding available to cover our rising administrative costs.

This year over-year-decrease in our projected contribution education should not take anything away from the impressive performance we are projecting for the coming fiscal year. Both the sales goal of $9.36 billion and the resulting contribution to education of $2.062 billion projected for fiscal year 2026-27 remain among the highest levels we've included in the Lottery's budget to date. Compared to last month's draft budget, this projected contribution to education for fiscal year 2026-27 is $4.2 million lower. Our projected sales net of prize expense is higher due to the increased sales projections for Powerball and Hot Spot, which is partially offset by the resulting increased retail compensation and gaming costs, as well as the additional investment we included in the marketing plan. These changes alone would have resulted in our contribution to education being $5.3 million higher than included in the draft budget, but this was more than offset by the projected $9.5 million decrease in interest earnings that I described.

And despite the great performance projected in this budget for the coming fiscal year, it does not meet the Lottery Act's requirement that our net revenues allocated to public schools, as reflected in the Lottery's Commission-approved budget, be at least as much as were allocated on average in the prior five fiscal years. So, looking at the highlighted row of this slide, it shows the average of the contribution to education for the preceding five years is just under $2.06 billion, including our projected revenues for the current fiscal year, and excluding unclaimed prizes and interest earnings in all five years.

Again, excluding unclaimed prizes and interest earnings, and assuming the reserves remain unspent, our projected contribution to education for fiscal year 2026-27 is not $1.98 billion, which is an estimated to fall short of the five-year average requirement by $78.1 million. This projected shortfall is a function of our plateauing sales and the resulting contribution to education, combined with some unexpectedly high performance we achieved in three of the five fiscal years that comprise the average.

The 2021-22 fiscal year is the first year included in the five-year average that the 2026-27 fiscal years budgeted contribution education must meet or exceed, and Lottery’s contribution to education in that year was unusually high due to the pandemic-fueled surge in Lottery sales that you saw earlier on the sales trend slides. And as I mentioned earlier, both the 2022-23 and 2023-24 fiscal years experienced unusually high contributions to education due to a statistically rare occurrence of jackpots over $1 billion in Powerball Mega Millions.

To illustrate how anomalous occurrences in the multistate games influence our net revenues allocated to education as well as the resulting five-year average, this slide shows the approximate estimated rollover luck percentiles for Mega Millions and Powerball for four of the five years included in the average of the 2026-27 budget must meet or exceed. We didn't start using simulations to compute rollover luck until the 2022-23 fiscal year but based on how relatively close our Mega Millions and Powerball sales were for fiscal year 2021-22 compared to the respective sales goals we had included in that year's budget, we do not believe we experienced abnormal rollover luck in either game in that fiscal year.

For the 2022-23 fiscal year, you can see the estimated rollover luck for both Mega Millions and Powerball was at the 85th percentile. This means that only 15 percent of the 1,000s of simulations that were run for each game that fiscal year would have resulted in more roles with higher jackpots.

Our roll over luck in the 2023-24 fiscal year was even more anomalous, with the estimated role of our luck for Mega Millions and Powerball being at the 96th and 97th percentile, respectively. This means that only 4% of the 1000s of simulations run for Mega Millions, and only 3% of the 1000s of simulations run for Powerball that year would have resulted in more roles with higher jackpots.

And we experienced anomalous rollover luck in the other direction in the 2024-2025 fiscal year with estimated rollover luck for Powerball being at just the second percentile. This means that 98 percent of the simulations run for Powerball that year would have resulted in more roles with higher jackpots. Although Mega Millions ended up being very close to the budgeted 50th percentile that year, we experienced lower than expected sales per draw in this game, which caused us to fall short of that year's Mega Millions sales goal by 14 percent.

So both of these factors explain why you saw in the previous slide that we did not meet the five-year average provision in 2024-25, despite that fiscal year's budget that was approved by the Commission projecting that we would meet the requirement. So I'm referring to the $93.2 million shortfall from ’24-’25.

So although the poor rollover luck we experienced in the 2024-25 fiscal year helps to bring down the average, the better-than-expected performance we achieved in the 2021-22 through 2023-24 fiscal years brings up the average to a level that we cannot meet in 2026-27 absent abnormal circumstances.

In requiring the Commission-approved budget to be compared to the contribution to education from the previous five fiscal years, the Legislature recognized there will occasionally be years in which the Lottery's contribution to education declines due to circumstances beyond the Lottery's control. However, it does not appear, as contemplated, that as growth inevitably begins to slow and then level off over time, it becomes mathematically impossible for the Lottery's budgeted contributions to education to exceed the mean of the previous five years without making unreasonable assumptions in the budget.

And to that point we would need to increase our Scratchers goal for the coming fiscal year by more than $409 million to net $78.1 million more to education to meet the five-year average requirement. And since Powerball, Mega Millions, and Super Lotta Plus have a lower relative prize payout, we'd need to increase the combined goal in these games by nearly $187 million.

My next two slides show just how aggressive and unreasonable either of these assumptions would be. So, the gold bar on this chart adds the $409 million in additional Scratchers sales needed to net $78.1 million more to education, and you can see this would require our Scratchers sales to be significantly higher than in the previous nine fiscal years.

Another important factor here is that our Scratchers sales goals translate into actions for various employees throughout the Lottery. As you know, the Lottery sales bonus program provides an incentive to Lottery employees who exceed goals by certain thresholds. If the Scratchers sales reflected in our budget are arbitrarily inflated, this would remove the drive for our employees to go that extra mile, knowing the goals are unachievable.

And similarly, the gold bar on this chart adds the

$187 million in additional Lotto game sales needed to net $78.1 million more to education to meet the five-year average provision. This would require our combined sales in the Big Lotto games to be the third highest in the last 10 years, only being beat by the two fiscal years for which the rollover luck in both Mega Millions and Powerball was at the 85th percentile or higher.

Another important fact is, upon Commission approval, we share our budget for the coming fiscal year with the education community, which they, in turn, use in their funding forecasts. If we purposely overstate our budgeted sales projections, this could lead to shortfalls for the educational entities that are relying on this funding.

And besides growing sales, it also would be possible for us to meet the five-year average provision on paper by reducing our administrative expenses by $78.1 million. But because the majority of the administrative funding is tied to contractual obligations, the only practical area within a budget that we could make such a reduction would be to our marketing budget plan, and with the reduction we are already making to this area, an additional $78 million reduction would leave less than $9 million for all of our marketing efforts for the year, which is completely unreasonable. So all this is to say, how irresponsible it would be for us to either assume higher sales growth or reduce our operating costs to meet the five-year average provision.

The Lottery strategic plan and 2026-27 business plan that you approved prior to this item are designed to increase our future sales and curtail our operating costs to increase the resulting contribution to education. And as we continue to work within the confines of the Lottery Act to adopt new revenue generating opportunities in the future, we expect will once again meet the five-year average provision.

However, the cycle of slowing and then plateauing growth in revenues and contribution to education will eventually repeat, causing the Lottery's budgeted contributions to education to, again, fall below the five-year average. Although we certainly strive for compliance, AB 142 does not include any consequences for failing to meet the five-year average provision. Even so, we have a duty to disclose this matter in the spirit of transparency, and we have shared this information within the administration, in addition to sharing it here today.

And my final slide shows our sales and contribution to education have trended over the last 25 completed fiscal years, and this chart also includes our projection of how we will end this current fiscal year, as well as the proposed budget for the coming fiscal year, assuming the reserves remain unspent. Although all dollar amounts on this chart are in billions, it accounts for a different scale between our revenues and contributions to education.

The gold bars reflect our sales revenue with the associated scale showing on the left side of the chart, and the blue line reflects our contribution to education with its scale shown on the right side. The black vertical line differentiates between before and after when AB 142 was fully implemented. So you can see that not only have our sales risen sharply since AB 142 was enacted, but more importantly, our contribution to education is significantly increased, which was the whole point of AB 142. And even with our plateauing growth, this clearly shows how our projected sales and contribution to education have trended upwards as compared to the years prior to AB 142.

Before concluding, I'd quickly like to recognize the team that builds the Lottery's budget and tracks our financial performance throughout the year. This team is comprised of our budget officer, Brett Grosso, and six analysts: Francisco, Janae (phonetic), Lee (phonetic), Ranjos (phonetic), Ruth, and Shaha (phonetic). So, thanks to each of them for their excellent work on this budget.

And with that, I ask for your approval of the Lottery's Fiscal Year 2026-27 Budget. Happy to answer any questions.

CHAIRMAN GARRISON-ENGBRECHT: Does any member of the public want to address the Commission at this time regarding Action Item 9g.

Do any Commissioners have any questions or comments regarding Action Item 9g?

VICE CHAIR MILLS: Thanks, Nick. That was a great presentation. And first of all, I just want to say a huge thank you for all the added charts and graphs and trends. It just adds so much more context to the numbers that are on the page and just helps prove out why some of these estimates that I've been, in my mind, sounded really conservative based on like the four times I come here a year and I hear things, to prove out why they make sense. So, thank you. I know this is a lot of work, but this is one of the most important things that we do as a commission, and that added context is super, super helpful.

So, I still have one question about the administrative spending reserve because, I'll point out, like if you zeroed out that administrative spending reserve, we would have a compliant budget, right? That was the other way to get to a compliant budget, and I know we'll agree to disagree on philosophically that line, but I'm curious, because if you zeroed it out, you would still be at total administrative expenses of 12.2 percent of sales, which is still below the high end of the range you said we've experienced and below the average of 12 percent because, I think, you said on average admin is the total administrative expenses, then between 11.3 and 12.4 --

DEPUTY DIRECTOR BUCHEN: Correct.

VICE CHAIR MILLS: -- if you zeroed it out at the 12.2. So, just on the record, the math would work, we would have a compliant budget, and what to me would be a reasonable total administrative expense based on historical averages. But my question is, I don't want to argue that point, I just want to go on the record and say that math works.

DEPUTY DIRECTOR BUCHEN: Okay.

VICE CHAIR MILLS: My question for you is, like, how do you determine that .8 percent of total sales is the responsible number to put in the administrative reserve?

DEPUTY DIRECTOR BUCHEN: It's one of those things that there's not a science to it, but as our revenues continue to grow, like at some point it becomes laughable if you have, you know, your revenues are over 10 billion, and you have like less than 100 million in reserve, but like any scene can just wipe out, you know, negate that reserve. So that's kind of the balance we're trying to achieve.

VICE CHAIR MILLS: Okay. Okay. So I think, for me, because I can do this math, and I can say, okay, I, believe in my mind that this is a compliant budget because this reserve --

DEPUTY DIRECTOR BUCHEN: So I do have a point of clarification on that. So what I reflected on this chart, so that $1.981 billion in net revenues that we're projecting for the coming year, that assumes the reserve remains unspent, so it already zeros them out.

VICE CHAIR MILLS: Oh, it already zeroes them out.

DEPUTY DIRECTOR BUCHEN: Right.

VICE CHAIR MILLS: Okay. Got it. Okay. Okay. Well, that's helpful to understand, too. So this calculation assumes that none of that administrative reserve is spent?

DEPUTY DIRECTOR BUCHEN: Correct.

VICE CHAIR MILLS: Okay. Thank you. Got it. That's super helpful. Okay. Thank you.

CHAIRMAN GARRISON-ENGBRECHT: Any additional questions?

Do I hear a motion to approve Action Item 9g, Fiscal Year 2026-27 Budget?

VICE CHAIR MILLS: I will move to approve.

COMMISSIONER ALVIDREZ: Second.

CHAIRMAN GARRISON-ENGBRECHT: Will the secretary please call the roll?

MS. OSMAN: Commissioner Mills?

VICE CHAIR MILLS: Yes.

MS. OSMAN: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. OSMAN: Commissioner Dungca?

COMMISSIONER DUNGCA: Yes.

MS. OSMAN: Chairman Garrison-Engbrecht?

CHAIRMAN GARRISON-ENGBRECHT: Yes.

DEPUTY DIRECTOR BUCHEN: Thank You..

CHAIRMAN GARRISON-ENGBRECHT: Well done.

Last but certainly not least, and Paula, I apologize, that was my mistake. I was going to move you up, and then I flipped through the agenda and moved too quickly so I apologize.

DEPUTY DIRECTOR NEGRETE: No problem at all.

CHAIRMAN GARRISON-ENGBRECHT: Thank you for being here. You have a greatly important topic as well.

DEPUTY DIRECTOR NEGRETE: Of course, of course. Thank you. Thank you, Nick, for taking us into the afternoon.

Good afternoon, Chair and Commissioners. Item 9h is a request for the Commission to approve a three-year Interagency Agreement with the California Department of Public Health for Maintenance of the California Problem Gambling Helpline provided by the Office of Problem Gambling in the amount of $540,000.

The Lottery's long-standing commitment to responsible gaming dates back to the Lottery's inception. Even though it is not mandated by state law, the Lottery initiated the state's first problem gambling headline in 1998 to support its players who may have experienced gaming-related issues. The Office of Problem Gambling was created in 2003. It is charged with developing and providing quality prevention and treatment programs to address gambling disorders and is currently housed within CDPH.

In 2007 a hearing held by the Senate Governmental Organization Committee concluded that the public would be better served by having a centralized helpline administered by the state's problem gambling experts. As a result, the California Problem Gambling Helpline, 1-800-Gambler, was established. On June 25th, 2007, the Lottery Commission approved transitioning its Problem Gambling Helpline to OPG to unify the state's responsible gaming efforts. Since 2007, the Lottery has maintained a strong collaborative partnership with OPG through interagency agreements that continue to promote the helpline on its games and through its communication channels.

In 2003, the Commission approved the current three-year agreement with CDPH for a contract amount of $510,000. This amount represented the annual increase of $30,920 to account for inflation to fund approximately 50 percent of costs for the helpline. Prior to this increase, the funding had not changed since fiscal year 2017-18.

The Lottery's responsible gaming efforts have continued at the behest of various directors and the Lottery Commission itself. The Lottery maintains a comprehensive responsible gaming program that has been awarded the highest certification by the World Lottery Association. The Lottery's WLA certification is a benchmark for other lottery jurisdictions worldwide in responsible gaming.

Promotion of the helpline is central to the Lottery's RG program. The Lottery promotes the helpline and other RG messages on its games, advertising, social media channels, and at retail locations.

Under this proposal, OPG would provide the Lottery with customized reports on the cost to the helpline, which help us develop our paid RG campaigns. OPG would also provide responsible gambling guideline brochures. These brochures are distributed at Lottery retail locations statewide. Additionally, OPG would allow the use of educational material as needed.

The agreement would also provide membership on OPG's advisory board. The advisory board is comprised of state regulatory agencies, representatives from the gambling industry, educators, and researchers who collaborate on problem gambling prevention and treatment. Membership on

OPG's advisory board allows the Lottery staff to remain informed about gambling disorders and related research, treatment services, and the coordination of statewide awareness campaigns, all of which can enhance the Lottery's own responsible gaming program.

The current proposal includes an increase of $30,000 to account for a rising cost for the California Helpline and inflation since 2023. The Lottery recommends the Commission approve a three-year interagency agreement with CDPH for maintenance of the California problem gambling helpline for $540,000, with a term date of July 1st, 2026, through June 30th, 2029. Happy to answer any questions you may have.

CHAIRMAN GARRISON-ENGBRECHT: Thank you. Does any member of the publicly want to address the Commission at this time regarding Action Item 9h?

Do any Commissioners have any questions or comments regarding this action item?

Seeing none, do I hear a motion to approve Action Item 9h, Interagency Agreement with the California Department of Public Health.

COMMISSIONER DUNGCA: Motion to approve.

COMMISSIONER ALVIDREZ: Second.

CHAIRMAN GARRISON-ENGBRECHT: Will the secretary please call the roll?

MS. OSMAN: Commissioner Mills?

VICE CHAIR MILLS: Yes.

MS. OSMAN: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. OSMAN: Commissioner Dungca?

COMMISSIONER DUNGCA: Yes.

MS. OSMAN: Chairman Garrison-Engbrecht?

CHAIRMAN GARRISON-ENGBRECHT: Yes. Thank you, Paula.

DEPUTY DIRECTOR NEGRETE: Thank you.

CHAIRMAN GARRISON-ENGBRECHT: The next item on the agenda is Item Number 10, Public Discussion. I don't think there's any public discussion.

MS. OSMAN: No, we don't.

CHAIRMAN GARRISON-ENGBRECHT: Next on the agenda item is Commissioner General Discussion. Do any of the Commissioners have any further discussion at this time? Seeing none.

We have tentatively scheduled the next Commission meetings for September 1st and November 19th, 2026. All meetings will be held here in Sacramento.

Thank you all for joining us today. This meeting is adjourned.

(MEETING ADJOURNED)

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This is to certify that I transcribed the foregoing pages 1 to 119 to the best of my ability from an audio recording provided to me by the California State Lottery Commission.

I have subscribed this certificate at Sloughhouse, California, this 27th day of June, 2026.

Tamyra Morgan

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Tamyra Morgan

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