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TRANSCRIPT OF PROCEEDINGS

CALIFORNIA STATE LOTTERY COMMISSION
COMMISSION MEETING

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A P P E A R A N C E S

California State Lottery Commission

GREGORY AHERN
Chair of the Commission
Commissioner

Peter Stern
Vice Chair of the Commission
Commissioner

Nathaniel Kirtman III (joined at 10:10 a.m.)
Commissioner

Keetha Mills
Commissioner

Participating Lottery Commission Staff

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Director

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Deputy Director of Business Planning

Fernando Aceves
Chief Counsel

Paula Negrete
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Nicholas Buchen
Deputy Director of Finance

Jennifer Chan
Deputy Director of Information Technology

Sharon Allen
Deputy Director of Sales & Marketing

Elisa Topete
Assistant to the Commission

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Thursday, March 17, 2022

Sacramento, California

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CHAIR AHERN: Ten o'clock. March 17th, 2022. Good morning, everyone. We'll call our Commission Meeting to order. I'd like to start off with the Pledge of Allegiance. So, if you'd please all rise and join me.

(The Pledge of Allegiance was recited.)

CHAIR AHERN: All righty. Thank you very much. I think those words mean something a little bit different with everything we see going on in the world. So, we're lucky to have that flag and thank you for honoring our nation. I appreciate it. Will the secretary please call the roll?

MS. TOPETE: Commissioner Kirtman?

MR. KIRTMAN: Hi. How are you doing?

MS. TOPETE: Commissioner Stern?

COMMISSIONER STERN: Here.

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Here.

MS. TOPETE: Chairmen Ahern.

CHAIR AHERN: Here. Okay. Item Number 4 is do any of the commissioners have any changes to today's agenda?

COMMISSIONER STERN: No changes.

CHAIR AHERN: Hearing none. Do I hear a motion

to adopt the Agenda?

COMMISSIONER STERN: Move the Agenda.

CHAIR AHERN: We have a motion. Is there a second?

COMMISSIONER MILLS: I'll second.

CHAIR AHERN: And will the Secretary please call the roll?

MS. TOPETE: Commissioner Kirtman? Commissioner Stern?

COMMISSIONER STERN: Yes.

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. All righty. Thank you. Our Agenda is approved. We'll move onto the Item Number 5, which is minutes. Looking for Approval of the Minutes. Are there any corrections to the Minutes? Okay. Hearing none. Do I hear a motion to approve the minutes for the January 27, 2022 Commission Meeting?

COMMISSIONER MILLS: I'll move to approve.

COMMISSIONER STERN: Second.

CHAIR AHERN: We have a motion and a second. Will the Secretary please call the roll?

MS. TOPETE: Commissioner Kirtman? Commissioner Stern?

COMMISSIONER STERN: Yes.

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: And yes. All right. Our Minutes are approved. Number 6 is Informational Items. We'll turn it on over to Alva for the Director's Comments.

DIRECTOR JOHNSON: Thank you Mr. Chairman, Commissioners. Total Lottery sales through Saturday, March 5th are over \$6 billion. Let's turn to the first slide, thanks. Thank you. Total Lottery sales through Saturday, March 5th are over \$6 billion. This is 9 percent above the sales goal and 9 percent higher than Lottery sales over the same time period last year, last fiscal year.

Scratcher's distribution sales are over \$4.75 billion. These games have continued to see strong, year over year, sales growth. Currently, Scratcher sales are pacing 12 percent ahead of last year's sales, and 9 percent over goal. The multi-state games, which include Powerball and Mega Millions, have sales over \$674 million combined.

Powerball sales have remained strong with two jackpots over \$600 million, leading to sales above goal and ahead of the pace set last fiscal year.

Mega Million sales of \$268 million are slightly below goal this year. While this jackpot has been able to

reach the low \$400 million a couple of times this fiscal year, in January of last year, Mega Millions had a \$1 billion jackpot. As a result, the year-to-date sales this year are now lagging last year's sales by 30 percent.

Sales for Super Lotto Plus and the Daily games, which include Daily 3, Daily 4, Fantasy 5, and Daily Derby, are both pacing on par with their respective goals and last fiscal year sales.

Hotspot sales through early March continue to exceed goal with sales exceeding \$272 million so far this year. During the first week of February, which also coincided with the Lunar New Year, Hotspots set an all-time weekly sales record of nearly \$8.48 million. With sales like this, year-to-date sales are tracking 14 percent ahead of last fiscal year's sales. Next slide, please.

We also assess how the Lottery is performing in terms of its most important measure, the contributions to Public Education. These figures are based on the Lottery's monthly cumulative financial sales report through January 31st. The February financials were not yet ready at the time this report was prepared. Through January, total sales are running 7 percent ahead of goal. While contributions to education are tracking 15 percent ahead of goal.

As commented on in our last commission meeting, we aren't always reporting profits exceeding goal by a greater

percentage than sales. So far this year, we have had strong sales from our draw games, particularly Powerball. Additionally, current year-to-date operating and administrative cost are slightly lower than we anticipated. Combined, this has led to a greater profit margin than originally set in our goals. As we go into our peak sales season this spring, we expect Scratcher sales to continue to grow at a faster rate than the draw games, which may bring these two percentages closer together by the end of the year.

Currently, total estimated contributions to Education are over \$1.1 billion. This is \$250 million greater than goal and \$100 million more than estimated contributions to Education through January of last fiscal year. Next slide, please.

Earlier, I reported that this year's multi-state game sales were 1 percent lower than last fiscal year through the beginning of March. This chart shows the cumulative sales for the multi-state games by week. This year's sales are in blue, with the orange line showing last fiscal year's sales. We have had stronger sales for the multi-state games through the first half of the year due to multiple Powerball jackpots over \$600 million. In contrast, last fiscal year started off with lower jackpots until the \$1 billion Mega Millions jackpot in late January, which

caused a significant spike in sales. Although our current sales are slightly lagging behind last fiscal year's, it is promising that we have been able to see similar sales levels without relying on a \$1 billion jackpot. Next slide, please.

The Scratchers has also shown stable sales so far this year compared to last year. This chart shows Scratcher's consumer sales by week. Average Scratcher sales this year have been roughly \$130 million per week.

Last fiscal year had a much slower start to the year, as it rebounded from the onset of the COVID-19 pandemic. Sales spiked in September with return of more business as usual, Scratcher shipment operations and advertising efforts. This year and last year also experienced the usual spike in sales during the holiday season.

As I alluded to earlier, the March to May time period is our peak Scratcher season. To take advantage of this, Marketing plans to launch several exciting new games. A family of California Dreamin' games are set to launch at the end of this month. These will be a refreshed look on the fan favorite games that launched back in 2021.

Additionally, this month saw the release of a new \$30 Set for Life Millionaire Addition Scratchers ticket, which gives players the chance to win the California

Lottery's highest Scratchers top prize to date, an amazing \$800,000 per year for 25 years. That's a top prize of \$20 million in total. Plus, all Scratchers will continue to be advertised throughout the season under the new Scratchers brand campaign efforts, reminding Californians that a little play can make their day.

With such strong sales coming into the Spring season, and promising new games and advertising efforts, we are optimistic about our sales exceeding goals and providing even more contributions to Education this year. That concludes the Director's report. I want to thank, again, our excellent Business Planning and Research team for their help in assisting and drafting this report.

COMMISSIONER STERN: Thank you. This is Commissioner Stern. I just want to congratulate you on the outstanding results, the revenue growth and contribution to Education, especially, through these tough couple of years here. So, I really appreciate all the hard work.

DIRECTOR JOHNSON: Thanks very much.

CHAIR AHERN: And Alva, I just had one question. Do we see any correlation to the COVID virus, the pandemic, and the sales? Are we seeing more activity in our stores and more sales or any trends that you've noticed?

DIRECTOR JOHNSON: You know, that's a great question and I'm going to defer to our Deputy Director of

Research and Planning, Jim Hasegawa, to provide a more detailed answer on that question. Jim?

DEPUTY DIRECTOR HASEGAWA: Yeah. We saw in the initial months of the pandemic, you know, sales declined actually because people, you know, going -- not going to those types of stores. It was a particularly hard hit with Social Trade channels, drug stores, and supermarkets but smaller Mom and Pop groceries and liquor stores were probably less impacted in terms of sales. And probably most of our products were hit. In terms of the rebound what we've seen is, and what believe is happening is that as people felt a little more, I guess COVID tired, I guess from --

CHAIR AHERN: Yeah.

DEPUTY DIRECTOR HASEGAWA: -- being enclosed.
And yet at the same time --

CHAIR AHERN: They call it COVID fatigue.

DEPUTY DIRECTOR HASEGAWA: Fatigue, yeah.

CHAIR AHERN: Call it COVID fatigue, yeah.

DEPUTY DIRECTOR HASEGAWA: Yeah. And what happened was that -- but they still felt uncomfortable going to places like movie theaters, travelling, going to restaurants and we saw the revenues in those locations were still declining. But people wanted to have some diversion, some a little bit of entertainment and that's what, you

know, led to actually having record sales. Because we were one of the few options for kind of entertainment that was easily accessible for people and they did need to still go to places like supermarkets and gas stations and all.

CHAIR AHERN: And I'm anticipating that with the COVID fatigue, with the rebounding that we've done through litigation of the virus, that we're going see things back to normal, prior to our virus?

DEPUTY DIRECTOR HASEGAWA: Yeah. And what -- we've seen, like, through sales through December, we've looked at other industries, like, airlines and movie theaters and they still haven't rebounded back to their pre-pandemic levels. And as you've seen, we've actually exceeded our pre-pandemic levels. We did kind of embed, like, in the latter half of this fiscal year and trying to, you know, be cautious about next fiscal year, as other things open up and feel -- people feel more comfortable partaking in those other activities, it could actually have somewhat of a negative impact on our sales.

CHAIR AHERN: All right. So, I hope we have some type of strategy to keep our sales going great like they're going now. All right.

DEPUTY DIRECTOR HASEGAWA: Yeah. And exactly. The marketing team is definitely working on that. We've got to reengage with our casual players and keep hold of our,

you know, the loyal players who have been with us during the pandemic. Exactly.

CHAIR AHERN: All right. All right. Thank you very much. Okay. We'll go to 6b, the Audit Committee update with Keetha Mills.

COMMISSIONER MILLS: Hi. Thank you. I am happy to report on behalf of the Audit Committee. And first I want to start by recognizing my colleague, Commissioner Mr. Stern, for his service on the Audit Committee. We are a small but mighty committee of two and I really appreciate Mr. Stern's partnership and leadership in this important work.

So, you may recall that at our November Commission Meeting, we approved our Audit Committee Charter and that charter included a requirement that the Audit Committee reports significant audit findings and report on the overall performance and structure of internal audits to the Commission on an annual basis. And so, as chair of our Audit Committee, I'm happy to provide you all with that report today.

So, the purpose of the Audit Committee is to assist the Lottery in fulfilling its oversight responsibilities related to the integrity of the Lottery's internal controls, the performance of the internal audit function and compliance with legal and regulatory

requirements and department policy and procedures.

And so, the Audit Committee assists the Lottery with three major functions and we fulfill the oversight responsibilities that support the integrity of internal controls, the performance of internal audits and compliance with those legal and regulatory requirements.

So, in fulfilling that role, we have met twice so far this fiscal year. We met in October and then again in January. And during these meetings we have discussed and approved the Internal Audit Plan and we've received reports from the Internal Audit team on the status of a vast number of internal and external audits that are ongoing at any point and time across the Lottery. We've also talked about audit findings and action plans that have been developed to address key audit findings. And we've also talked a little bit about the staffing and the workload and the structure, the overall structure, of the Internal Audit's Department really with the lens of insuring we're maximizing impact and efficiency of the work of Internal Audits.

So, currently I am happy to report that there are no audit findings that were deemed significant, enough to warrant elevation to the commission.

So, the audit findings that we've discussed have really been more about continuous improvement, and policy and procedure refinement. And we've had a lot of

conversation focused on insuring full circle follow up on internal audit findings to ensure that reasonable action plans are put in place, that those actions are actually taken, and I think most importantly that the results of the actions that were taken are actually valuable to the Lottery's operations.

And so, we've also spent some time evaluating and assessing the overall effectiveness of the Internal Audit's function and we'll say with the new department leadership, it's really provided fresh eyes and a fresh perspective and it's really provided the department the opportunity to review their own processes and procedures within the Internal Audits Department and to focus maybe a bit more on training and development of department staff to not only, you know, to make sure that they're following the applicable standards and rules and requirements of the internal audits function. But to also really focus on insuring that their work is efficient, and is effective, and is impactful as possible. And at the end of the day, that you know, the department there is to really meet their mission to add value. It's -- they're meant to be a value at a department by providing quality auditing and consulting and risk management services, while also working with management to evaluate controls and identify risks. But also help streamline processes and provide really, you know, valuable,

impactful, sustainable recommendations for continuous improvement throughout the organization.

So, with that, that concludes my report, I'm happy to answer any questions.

COMMISSIONER STERN: I just have a few comments as well. Commissioner Mills, really appreciate your leadership through this initiative and just proud to be part of this organization. Director Johnson's incredible support, Sara's leadership throughout this process and the broader executive team. And while we are a relatively new group of individuals, we're building the foundation of what the future State Audit program will look like and continue to evolve. So, I'm very pleased with the progress to date and appreciate everyone's support.

CHAIR AHERN: All right. Thank you. And I agree with you Peter. Okay. We'll go on to Item 6c, which is Problem Gambling Awareness Month with Paula Negrete.

DEPUTY DIRECTOR NEGRETE: Morning Chair Ahern and Commissioners. As part of the Director's report, I'll be sharing information on National Problem Gambling Awareness Month. We refer to it as PGAM.

Problem Gambling Awareness Month is nationally recognized during the month of March. Here in California, responsible gaming advocates, like the Lottery, treatment experts, and others from the gambling industry work in

collaboration with California Department of Public Health's Office of Problem Gambling. Together we use our collective outreach channels to raise awareness on the important and serious issue of problem gambling and promote the Problem Gambling Help Line, 1-800-GAMBLER, where individuals impacted by gambling disorders can seek treatment.

When individuals contact the Problem Gambling Help Line, 800Gambler.chat, or text Support to 53342, they receive confidential assistance from a licensed therapist, who specializes in gambling disorders at no cost. The Lottery stands out as a significant partner for PGAM given its footprint in the state, having 23-plus retail locations and many communications channels. Advance slide, please.

The Lottery's promotional efforts for PGAM are broken up into three parts: internal communications to our employees, communications to our retail partners, and mass communications to players and the general public. The Lottery communicates key messages for the campaign to our employees through its Intranet site, Click, through divisional meetings where staff have an opportunity to ask questions, and through monthly e-mail communications. Advance slide, please.

For retailers, we include special campaign messages to promote the Help Line, reminding retailers that they play an integral role in our games being played and

sold responsibly. We remind retailers that our Responsible Gaming brochures can be found at our play centers and add messaging to the Lottery's monthly retailer product plan and through daily terminal messages. Advance slide and advance slide.

For the general public, special messaging can be found on draw game tickets, at retail locations, via electronic point-of-sale monitors, as well as our Daily Draw Game monitors on the Lottery's own communication channels, like, our website and our social media platforms, and through paid advertising. We have also added a PGAM message to 1-800-LOTTERY. Advance the slide. Advance slide. Advance slide.

The Lottery's collective efforts to support Problem Gambling Awareness month are a significant part of the Lottery's Responsible Gaming program that has been internationally recognized with the highest certifications by the World Lottery Association. Again, the Lottery is a -- is proud to be a partner to the Office of Problem Gambling in support of National Problem Gambling Awareness Month. I'd be happy to answer any questions that you may have.

CHAIR AHERN: Well, first, I need glasses to read your stuff. So, I hope our problem Gamblers have good eyesight. But so, I heard a radio announcement about three

days ago from a California Problem Gamblers and do we fund that entire entity or do we just utilize them to get our message out?

DEPUTY DIRECTOR NEGRETE: We've helped fund the Problem Gambling Help Line. And then we --

CHAIR AHERN: Okay.

DEPUTY DIRECTOR NEGRETE: -- work to support campaigns like this one and we also have the National Holiday campaign as well, which is gift responsibly.

CHAIR AHERN: I just didn't know if we were totally responsible for Problem Gambling CA Gov or is there another -- is there funding other sources? Does the State fund them as well as the Lottery or does the Lottery totally fund them?

DEPUTY DIRECTOR NEGRETE: The state. So, the treatment services programs are funded by others in the gambling industry. That's for treatment and, like I said, we fund the Help Line, partially fund the Help Line.

CHAIR AHERN: Okay. All right. That was a very nice commercial. It was very well done, so. All right. Anybody else have any questions? All right. We'll move on to -- and thank you very much, Paula. Thank you very much. And we'll move on to Item Number 7.

The next item is the Consent Calendar. There are no items on the Consent Calendar. So, we'll proceed to

Action Items. Go to Action Item 8a and we'll start with Nick. We have a contract for Independent Financial Services Auditor.

DEPUTY DIRECTOR BUCHEN: All right. Thank you.
Good morning, Mr. Chair, members.

CHAIR AHERN: And good morning.

DEPUTY DIRECTOR BUCHEN: So, the Lottery Act requires an independent firm of certified public accountants to perform an annual audit of the Lottery's financials. KPMG is current auditor for these services and is the process of conducting an audit of the Lottery's Fiscal Year 2020-21 Financial Statements.

The current contract with KPMG began in March of 2016 with a term of three years and included options to extend for three additional one-year periods. With the Commission's approval, the Lottery exercised all three extensions from 2019-2022. And given delays in completing the audit of the Lottery's Financial Statements for the 2020-21 fiscal year, at our January 2022 Commission Meeting, you approved an emergency extension of up to one additional year to enable KPMG to complete this audit.

At the time, the Lottery sought approval for the emergency extension, a request for proposal, or RPF, for these services was nearing completion. The Lottery conducted an RPF for these services in September of 2021 and

received one qualified proposal from Weaver and Tidwell LLP, known as Weaver. The Lottery evaluated the proposal and determined that Weaver exceeded the minimum requirements of the RFP. Also, Weaver's rates were determined to be fair and reasonable. In addition to exceeding the minimum requirements of the RFP, Weaver has pertinent experience that should benefit the Lottery. Specifically, since 2013, Weaver has performed financial statement audits for the Texas Lottery Commission. And because the operations of the Texas Lottery Commission are similar in size and scope to the California Lotteries, this should enable Weaver to more quickly get up to speed on our financials.

In addition, Weaver's proposed engagement team for the Lottery has direct experience with our gaming system vendor IGT, which should also translate into efficiencies in the audit.

And lastly, Weaver has experience in transitioning audit services from KPMG for some of their other clients. I am, therefore, asking your approval of the award of the Independent Financial Services Auditor contract to Weaver for a term of three years and a maximum agreement amount of \$550,000 with two one-year options to extend. I'm happy to answer any questions you may have.

CHAIR AHERN: Yeah. All right. Thank you, Nick. Do any of the Commissioners have any questions or comments

on Action Item 8a?

COMMISSIONER MILLS: Chairmen Ahern, this is Commissioner Mills. I do have a question.

CHAIR AHERN: Go right ahead.

COMMISSIONER MILLS: Thank you. Hi, Nick. Thank you for the presentation. I wondered if you could talk to us a little bit about, sounds like we only had one bidder. And so, I have two questions. One, are we concerned that KPMG did not rebid on the work? Is there anything that we need to look into around that? And then two, if you could talk a little bit about, you know, the solicitation process and, you know, how we got the word out and how we might -- are there any lessons learned from the solicitation to try to ensure that we have, you know, numerous competitive bids to compare and contrast against.

DEPUTY DIRECTOR BUCHEN: Right. So, to your first question. We actually reached out to our manager over at KPMG just to, you know, find out from their perspective were they aware? You know, did they purposely not bid. They were aware of the solicitation and they chose not to bid. It sounds like they're focusing most of their efforts around the Bay Area currently.

So, but to your question about, you know, were there any lessons learned? We actually did do the solicitation twice. So, first we did an RFP earlier in the

summer and we, again, only had one bid. And looking at the proposal that was submitted, we realized that we could benefit from including more detail in exactly what we were looking for in this audit. And so, we repackaged the solicitation and resubmitted the RFP. Again, we just had one bidder, but it was clear that our efforts worked in terms of, you know, we -- it was more specific to our requirements on what was submitted.

COMMISSIONER MILLS: Great. Thank you. And just one other point. It sounds like this is a Texas-based firm, but they do have operations in California?

DEPUTY DIRECTOR BUCHEN: Correct.

COMMISSIONER MILLS: Okay.

DEPUTY DIRECTOR BUCHEN: They have offices in Los Angeles, it's their biggest in California.

COMMISSIONER MILLS: Okay. Great. Well, I think that, you know, the experience with the Texas Lottery will certainly be beneficial for us and hopefully we'll get some economies to scale and maybe even some, you know, best practices from them out of that experience. I would encourage you guys. I mean, we are California-based funded by Californians and California tax payers. And to the extent that the firm can leverage their Texas experience but also utilize, you know, their California-based employees, I think that would be ideal for the California Lottery.

DEPUTY DIRECTOR BUCHEN: And you reminded me. I forgot to mention that when we do solicitations, we utilize the State's Fi\$Cal system to look for prospective bidders. So, we cast a wide net and typically, you know, we have lists of California firms for these services as well. So, we're equally hopeful that, you know, something like that can come to fruition in the future.

COMMISSIONER MILLS: Great. Thank you.

CHAIR AHERN: And I have the same issues too. So, I appreciate you bringing them up as well. All right. Does any member of the Commission have any other questions? Seeing none. Does any member of the public want to address the Commission at this time regarding Action Item 8a? Hearing none. Do I hear a motion to approve Action Item 8a, contract for independent financial services auditor?

COMMISSIONER MILLS: I'll move to approve.

CHAIR AHERN: We have a motion to approve; is there a second?

COMMISSIONER STERN: I'll second.

CHAIR AHERN: A motion and a second. Will the Secretary please call the roll?

MS. TOPETE: Commissioner Kirtman?

COMMISSIONER KIRTMAN: Yes.

MS. TOPETE: Commissioner Stern?

COMMISSIONER STERN: Yes.

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: And yes. All right, 8a passes.

Thank you very much, Nick. We'll move on to 8b. There's a ServiceNow renewal and we'll call on Jennifer Chan.

DEPUTY DIRECTOR CHAN: Good morning, Chairman and Commissioners.

CHAIR AHERN: And good morning.

DEPUTY DIRECTOR CHAN: Item 8b, is a request to enter into a 30-month agreement to renew the existing licensing for ServiceNow, which included the IT service management ITSM and IT business management ITBM modules.

ServiceNow is a cloud-based software platform with configurable modules and tool sets that enables organizations to automate and consolidate a wide variety of requests, processes, services, and workflows across multiple business domains. In 2019, the Lottery purchased ServiceNow and specifically, the ITSM module to improve IT support services and capabilities to replace the former Case K1000 or K Bots platform for incident and request management. The Lottery transitioned over to ServiceNow in July of 2020 and has since then continued to build and develop enhancements and new functionality to support business needs.

After reviewing options and solutions in December

of 2020, the Enterprise Project Management Office, EPMO, selected the ITBM module and ServiceNow to replace the plan view portfolio management, PPM Pro system, to track status of projects, manage a project portfolio, and provide project reports to Lottery leadership.

Since initially investing in the ServiceNow platform, the Information Technology Services Division has successfully launched an online service portal and ticketing system that has been instrumental in supporting the needs of the Lottery as a result of the COVID-19 pandemic.

Due to the flexibility of the platform and functionality available in ServiceNow, the Lottery has made the decision to continue to invest in the ServiceNow platform as part of a long-term strategy to increase operational efficiencies. New enhancements of functionality have continued to be implemented such as automation of the employee separation process and automation of the background check process. Without ServiceNow, the Lottery would not have a system capable of meeting its business needs and would have to fall back on manual processes and/or multiple siloed systems.

One thing to note is that this particular request is to renew the existing licensing owned by the Lottery for ServiceNow, but there will likely be future request brought to the Commission for approval of related ServiceNow

requests as the Lottery expands its ServiceNow footprint.

This request is for the renewal of the licensing for the ITSM and ITBM ServiceNow modules. The total contract amount is anticipated to not exceed \$821,494 with a term date beginning June 15th of 2022 and ending December 14th of 2024. And I am happy to answer any questions you may have.

CHAIR AHERN: Okay. Thank you very much, Jennifer. We'll go to Commissions. Does anyone on the Commission have any questions regarding Action Item 8b?

COMMISSIONER STERN: Thank you, Jennifer. Just curious on the new business processes, you're looking to automate leveraging the platform over time. I know they're constantly adding new capabilities within their platform. And I'm just curious on your thoughts on their other areas that we could leverage or other areas for automation?

DEPUTY DIRECTOR CHAN: We definitely have a lot of areas that are being considered now. Everything from automating the Public Request Acts requests that come in and even some of our human resources processes and as well as some document management processes. So, there definitely is a long list and we're working to prioritize them with our business partners.

COMMISSIONER STERN: Thank you.

CHAIR AHERN: All right. Any other questions

from our Commissioners? Do we have any member of the public that wants to address the Commission at this time regarding Action Item 8b? Hearing none. Do I have a motion to approve Action Item 8b, ServiceNow renewal?

COMMISSIONER STERN: Motion to approve.

CHAIR AHERN: We have a motion. Is there a second?

COMMISSIONER MILLS: I'll second.

CHAIR AHERN: We have a motion and a second. Will the Secretary please call the roll?

MS. TOPETE: Commissioner Kirtman?

COMMISSIONER KIRTMAN: Yes.

MS. TOPETE: Commissioner Stern?

COMMISSIONER STERN: Yes.

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. All right. Thank you very much, Jennifer. Motion --

DEPUTY DIRECTOR CHAN: Thank you.

CHAIR AHERN: -- 8b passes. Appreciate your hard work. With that, we'll move on to Action Item 8c. 8c is the Alcone Marketing Group Contract. We'll call on Sharon Allen.

DEPUTY DIRECTOR ALLEN: Good morning.

CHAIR AHERN: And good morning, Sharon.

DEPUTY DIRECTOR ALLEN: Good morning. Can you hear me? I'm having a little technical this morning. You guys can hear me?

CHAIR AHERN: We can hear you. We can't see you.

DEPUTY DIRECTOR ALLEN: Oh, okay. That's weird. All right. I don't know what's going on, apologize. I'll just go forward. Let's see if --

CHAIR AHERN: Oh, there we go.

DEPUTY DIRECTOR ALLEN: -- I can get my cameras workings.

COMMISSIONER KIRTMAN: Yeah.

DEPUTY DIRECTOR ALLEN: -- Okay. I'm all set. One of those days. All right. Thank you for your patience. Good morning. All right. With this item, the Lottery is requesting approval of a 7-month contract with Alcone Marketing Group from June 1st through December 31st of this year. This will allow for essential promotional and retail marketing initiatives to continue while a comprehensive and competitive solicitation is completed.

The current contract with Alcone is set to expire on May 31st and there are no additional extension options. Alcone plays an integral part of the Lottery's overall marketing plan. Their responsibilities include the development of point-of-sale materials and product displays

for our 23,000 retail locations. They also handle monthly retailer communications and a variety of statewide promotional programs.

We are currently conducting a formal solicitation to secure a new contract for these services. However, it will not be completed before the contract expires. There were many delays in the solicitation process, including interruptions caused by the pandemic and time needed to establish teleworking protocols. Additionally, the procurements services and support unit or PSS, was reorganized and restructured, which required the hiring and orientation of new staff members, restructuring of procurements procedures, and re-examining the current RFP process.

Marketing services at the level required by the Lottery are unique within state government. In consideration of this unique need, the Lottery worked with an industry consultant to create a formal solicitation process specific for marketing that can attract best-in-class agencies that meets the Lottery's needs while also remaining consistent with all state and Lottery procurement requirements. This process has been successfully utilized for over ten years. Through this process, the Lottery has secured contracts with top-ranked agencies in the state and the process has also held up to multiple audits.

Additionally, it has served as a model for other state agencies that hire marketing firms. The RFP was on schedule to release last summer when PSF did additional analysis to determine that the existing process needed more reworking to further realign the Lottery with other state organizations and make the RFP process more defensible in case of an audit or protest. The marketing MPSF teams worked extensively to discuss and review all of the aspects of the proven process and the proposed changes to ensure that it would meet PSS goals without impacting the Lottery's unique marketing requirement. It would also serve as a template for future solicitation. This took more time than anticipated and was delayed until last December when the Promotions and Retail Marketing RFP was issued. A Lottery evaluation panel will discuss, assess, and score each proposers qualifications and work skills over three tactical phases with the goal of awarding a new contract no later than December of 2022.

Due to the length of time needed for a thorough and fair RFP processes, a new contract with Alcone is necessary. A lapse would negatively impact product sales as well as player and retail relationships and ultimately contributions to Education. A noncompetitive bid process will be used. However, the new contract will be issued with the same scope, terms, and conditions as the current

contract. Staff estimates that \$10.5 million in funding will be needed. If the RFP process, a new contract award can be completed ahead of schedule, the new contract may end sooner than December 31st.

We recommend that the Commission approve a new 7-month contract with Alcone Marketing Group to continue retail marketing services with a maximum expenditure amount of \$10.5 million. At that, I'm happy to answer any questions.

CHAIR AHERN: All righty. Thank you. We'll move on to questions from the Commissioners. Does any Commissioners have questions or comments regarding Action Item 8c? Okay. I have one question. Wait, do we have a -- Peter, you just clicked on. Did you have a question?

COMMISSIONER STERN: No, just went on camera.

CHAIR AHERN: Okay.

COMMISSIONER STERN: Thank you.

CHAIR AHERN: All right. Do we have some anticipation on what we're going to be doing on December 31st, 2022 when that contract ends?

DEPUTY DIRECTOR ALLEN: Well, we are in process of the current solicitation. So, the outcome of that solicitation will yield a new contract and we will have a new contract with that vendor to take over and there will be a transition --

CHAIR AHERN: Okay.

DEPUTY DIRECTOR ALLEN: -- between the incumbent or the whatever the term -- the new contract. The firm that receives the new contract and the existing vendor.

CHAIR AHERN: All right. I was just wondering because December will come up rather quickly.

DEPUTY DIRECTOR ALLEN: We're on track.

CHAIR AHERN: Okay, okay.

DEPUTY DIRECTOR ALLEN: We're on track to get it done. And if we can get it done sooner, we will end this interim contract, if you will.

CHAIR AHERN: Okay. All right. Thank you. Any other questions?

COMMISSIONER MILLS: Chair Ahern, this is Commissioner Mills. I actually do have a question for Sharon. Hi Sharon.

DEPUTY DIRECTOR ALLEN: Hi.

COMMISSIONER MILLS: Thanks for that presentation. I wonder, you know, you talked about the process that you guys use for the solicitation and that it was a process you guys have used for years and it was sound. It's been through audits. It's used by other state agencies but then you also described some additional improvements that were made to the process after further review. And I wondered if you could just talk a little bit about the nature of those

improvements. Were they just more around continuous improvement and making it even better or what? Like, what it -- can you just give us a flavor for the --

DEPUTY DIRECTOR ALLEN: Sure.

COMMISSIONER MILLS: -- nature?

DEPUTY DIRECTOR ALLEN: Sure, sure, sure.

COMMISSIONER MILLS: Because it stopped through the process, right? And is part of what, you know, why we're delayed. So, I'd just like to hear a little bit more about that.

DEPUTY DIRECTOR ALLEN: Definitely. And with each of these we're always -- they're long and extensive. And we just did one last year for African American Agency. We start from there. What can we improve? What did we learn? And we go through that process. And then with the new PSS team, they also took a fresh look. And I think substantively, the construct or the main process is very similar, but we added another layer of quantitative scoring into the process. And that is probably the most significant, in addition to aligning the contract terms with previous contract, marketing contracts so we have some consistency.

So, really about continuous improvement. And as we go through this process, we will do a post evaluation and continue to learn and improve as we go on. We also looked

at best practices from leaving trade organizations, the 4A's Association of American Advertising Agencies and the Association of National Advertisers. They issued joint guidelines for solicitations and we made adjustments based on those because this is a continually changing industry and we want to make sure that we are attracting the best-in-class vendors.

COMMISSIONER MILLS: Great. Thank you.

CHAIR AHERN: Okay. Does any member of the public want to address the Commission at this time regarding Action Item 8c? Hearing none. Do we hear a motion to approve Action Item 8c, Alcone Marketing Group contract?

COMMISSIONER MILLS: I'll move to approve.

CHAIR AHERN: We have a motion to approve. Is there a second?

COMMISSIONER STERN: Second.

COMMISSIONER KIRTMAN: Second.

CHAIR AHERN: All right. We have a motion and a second. Will the Secretary please call the roll?

DEPUTY DIRECTOR ALLEN: Thank you.

MS. TOPETE: Commissioner Kirtman?

COMMISSIONER KIRTMAN: Yes.

MS. TOPETE: Commissioner Stern?

COMMISSIONER STERN: Yes.

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. Okay, Sharon. Thank you very much. Action Item 8c passes. Very well, thank you. Okay. Our next Item is Number 9, Commissioners General Discussion. Do any Commissioners have anything they'd like to bring up at this time? Hearing none. We'll move on to scheduled meetings. We have tentatively scheduled Commission Meetings on May 26th and June 30th, 2022. Does any Commissioner have any problem with those meeting dates? If so, please let us know early so we can make some adjustments. Item Number 11, is Public Discussion. Comments are limited to three minutes per person. Does anyone wish to address the commission at this time? I understand we might have one public speaker.

MR. BRANDT: Yes. Members of the public, to raise your hand to speak, press *5 on your phone.

CHAIR AHERN: Members of the public who wish to speak, please raise your hand by pressing *5. We have one hand up. Can the IT people call on that --

MR. BRANDT: Yes, please --

CHAIR AHERN: -- person for me, please?

MR. BRANDT: Yes. Please press *6 now to unmute your phone.

CHAIR AHERN: Speaker, if you could press *6 to unmute your phone and identify yourself by name.

MS. CASTILLO: Good morning, Commission. My name is Nelly Castillo. I am the co-founder of Vendetta Entertainment. Our feature abilities and portfolio range from commercials to narrative content for brands like Spotify, Paramount Pictures, Sony Music, and working side by side with personalities like LeBron James and others. We are a Latin and woman-owned small business certified by the state of California and we currently have a partnership with the City of Los Angeles committed to provide career pathways for low-income and under-represented Angeleno Youth. We received an invitation to participate in the California Lottery RFP 50188. However, there were many challenges that did not allow us to make such submission.

Number one, we approach potential partners and the due date did not work. I sent an e-mail to the Procurement specialist on January 31st, who responded the time for questions has passed and we're unable to consider your request. Given the current health circumstances, I personally would consider reasonable to extend the due date.

Number two, some of the requirements in the RFP are unattainable and contradictory to the California Lottery's efforts to include a small businesses like mine. Specifically, this one, at least \$8 million in annual client billing. Even with those challenges, we continued working to find partners and contractors who would be interested in

working with the California Lottery in the future. And by the way, there's a document available with this info that I provided (inaudible) via e-mail should the Commission request it.

The partnership and subcontractors that we were able to attain, number 1, creative partnership with Advertising Agency Young Hero responsible for LeBron's Love of 1707 Tequila commercials in 2020 and 2021.

The next one is Hava Formula as a subcontractor for retailer's promotions and positive consumer impact throughout California retailers.

And finally, I wanted to add, there's some other ways for the Lottery to make a positive impact on education and communities that surely need it. For example, after school youth organization East L.A. Rising. Founded by director Anna Araujo, which has been a pillar for the community since 1950. East L.A. Rising serves youth ages 5 to 18. Its mission is to assist working parents, primarily Black and Latino. That will be all and thank you so much for your time. Gracias.

CHAIR AHERN: Okay. Thank you very much for your comments. We appreciate the time and effort. But does any other people want to address the commission at this time?

MR. MOURNING: Yes. I would like to address the commission.

CHAIR AHERN: Okay. Could you please state your name and realize that we're going to provide you three minutes of time?

MR. MOURNING: Okay. Hi, my name is Roland Mourning. I presented from the scratch off PMT guide back in March I think it was 2018 when I first started my project. And so, I'm a (inaudible) member and I'm the owner of a company called Auto Lotto Scratcher, Inc.

Currently, I'm selling my product next to the scratch off tickets in some of the stores here in California and stuff. But my main goal is to become a promotional item for the Lottery and stuff. So, I would like to know where I could go to present my product to you guys and maybe get on board with the California Lottery. I am in the EBE Certified Business too here in California, minority business.

CHAIR AHERN: All righty. Thank you very much. So, for both speakers, if you have information that you'd like to have further considered by the Lottery, if you could provide your material to the director, Alva Johnson, at the California State Lottery and we can review your material and have the proper people at the Lottery get back to you and staff can respond, if applicable. All right. Alva, any --

MR. MOURNING: Cool, awesome.

CHAIR AHERN: -- problem with that?

DIRECTOR JOHNSON: Mr. Chairman.

MR. MOURNING: Thank you.

DIRECTOR JOHNSON: I agree with your comments. We'd be happy to review proposals that are submitted to the Lottery.

CHAIR AHERN: All righty.

MR. MOURNING: Cool, awesome. I'm a recently inducted Black Inventor into the Black Inventor Hall of Fame to just to let you guys know. So, cool, awesome. That sounds great. Thank you, guys.

CHAIR AHERN: Okay. All righty. Does anyone else want to address the commission at this time? I'll go to our IT department. Are there any other hands or questions or people that want to address the commission?

MR. BRANDT: No, there are not.

CHAIR AHERN: Okay. Seeing none. Thank you all very much. This is March 17th, it's Saint Patrick's Day. I wish you all the luckiest of day. Follow your pot of gold. Good luck to you and enjoy the day. And thank you again for all your hard work and dedication to the benefit of the Education in California. All right. Happy Saint Patrick's Day. You guys all take care.

COMMISSIONER MILLS: Thank you.

(End of Recording)

(MEETING ADJOURNED)

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 This is to certify that I transcribed the foregoing pages 1 to 40 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 Elk Grove, California, this 20th day of March, 2022.



Victoria Brown

Foothill Transcription Company