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TRANSCRIPT OF PROCEEDINGS**

**CALIFORNIA STATE LOTTERY COMMISSION
COMMISSION MEETING**

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Commissioner

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Commissioner

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May 25, 2023

Sacramento, California

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CHAIR AHERN: All right. Good morning, everyone. We'll call our Lottery meeting to order. We'll start with the Pledge of Allegiance. If you'll all rise, follow along it's going to be the American flag. It's the most amazing.

(The Pledge of Allegiance was recited.)

CHAIR AHERN: All right. Once again, good morning and thank you all for being here today.

We'd like to welcome our newest commissioner, Dr. Alexandre Rasouli. Dr. Roselli is a spine surgeon and is a member of the North American Spine Society and serves on the Medical Board of the International Society of Children with Cancer. And welcome him to the California State Library, ladies and gentlemen.

Item Number Four is our Consider Approval of the Agenda. Do any of our commissioners have any changes to today's agenda? Any member have a motion to adopt the agenda?

COMMISSIONER MILLS: I'll move to approve.

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

COMMISSIONER GARRISON-ENGBRECHT: I second.

CHAIR AHERN: Thank you very much. Will the

Secretary please call the roll?

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. TOPETE: Commissioner Garrison-Engbrecht?

COMMISSIONER GARRISON-ENGBRECHT: Yes.

MS. TOPETE: Commissioner Rasouli.

COMMISSIONER RASOULI: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. All right. Item Number Five is Approval of the Minutes of March 30th, 2023 Commission Meeting. Is there any corrections to the meeting minutes? Hearing none, do I hear a motion to approve the Minutes of March 30th, 2023 Commission Meeting?

COMMISSIONER RASOULI: Motion to approve.

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

COMMISSIONER ALVIDREZ: I'll second.

CHAIR AHERN: We have a motion and a second.

Will the Secretary please call the roll?

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. TOPETE: Commissioner Garrison-Engbrecht?

COMMISSIONER GARRISON-ENGBRECHT: Yes.

MS. TOPETE: Commissioner Rasouli.

COMMISSIONER RASOULI: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. All right. Thank you very much. We'll move on to Item Number Six, Agenda for Information Items or our wonderful director, Alva Johnson.

DIRECTOR JOHNSON: Okay. Good morning, everyone, Chairman, Members of the Commission. I'm so happy to see you today as well. Our staff and guests, thank you so much for joining us for this meeting today.

As is customary, I will be presenting the sales summary for the current period. I want to say in advance, I appreciate the good work of our Business Planning and Research Division for putting together these remarks, which take a lot of effort and analysis. And so, I think we've got, again, a great report for you today, Commissioners.

Lottery sales are now over \$8 billion and are on the pace to be yet another record-setting year for both sales and contributions to education. Total sales through mid-May are surpassing both our projections for this year and last year's sales to this time. With just over a month left in this fiscal year, are current strong sales position, bodes well for our year-end figures. Jim Hasegawa, Deputy

Director of Business Planning, and Nick Buchen, Deputy Director of Finance, will provide more commentary on this in a few minutes.

As seen on line two of this table, Scratchers sales so far this year are over \$5.6 billion. These sales are estimates of consumer sales and will not perfectly match actual financial figures, which are based on ticket distributions and returns. However, they provide another estimate of the Scratchers ticket sales on a week-to-week basis. As such, year-to-date Scratchers sales are on par with our expectations for this year. Our goals this year were expected to be softer for Scratchers as fewer pandemic restrictions led to greater competition for our players' entertainment dollars.

The multi-state games, Powerball and Mega Millions, have sales now exceeding \$1.4 billion. Thanks to the unlikely occurrence of sudden draws with jackpots over a billion dollars or higher this fiscal year, combined sales for these games already exceed their annual roll by half a million dollars.

Our California-only jackpot game, SuperLotto Plus of which we are very proud of, got its moment to shine recently as a roll of luck had it offering the highest jackpot out of all of our games for more than a week in April.

SuperLotto Plus sales during that time exceeded both multi-state draw games, something we haven't seen since 2021. Total sales for this game are all above all in, last year's sales.

The Daily Games and Hot Spot each have sales of over 300 million so far this year. Hot Spot is only strong with 2 percent growth over last year and is performing moderately better than projected. Sales of the Daily Games have slipped slightly compared to last year's sales but are still performing better than expected.

Moving on now to profits. Our profit summary includes this month's update on our estimated contributions to education. That's where our profits go. Through April, expected funds for education are significantly exceeding our roll by 28 percent. Total contributions are estimated at over \$1.8 billion, which is also ahead of last year's estimates through this time by \$150 million.

We have wanted to add a little bit more information about what we call positive Lottery stories. This is something we've worked on for a while now. Telling more about the impacts of these dollars to education that we work so hard to generate. So, we're going to be highlighting some of the work of our Public Affairs and Communications team, which has recently been scaling efforts to share and amplify positive Lottery stories in line with

our strategic business objective to continue improving knowledge and perceptions about the Lottery.

First, this story of one of our newest millionaires was shared literally around the world. Lucia Forsett was homeless six years ago. Over the past few years, she turned her life around. No longer homeless, she decided on New Year's Eve, this past December 31st, to play our then-new 2023 Scratchers game, and she wound up winning \$5 million. Not only is she now a millionaire, she is also finishing her degree and getting married.

Our Public Affairs identified this incredibly heartwarming story and encouraged her to allow us to share it with the public. The news story was picked up in 42 countries, with over 1,100 mentions in the media. Even better, the PAC team, our Public Affairs and Communications team, was able to tie Ms. Forsett's story right back to our mission. A significant portion of the news coverage included this quote from our Deputy Director and spokesperson, Carolyn Becker, who reiterates our mission, saying, "A success story like this showcases the positive impact our games have on winners and schools alike."

Here's another successful tactic recently taken by the Lottery's Communications Division. The team helped me to author an op-ed about why the Lottery is so beneficial for public schools, and the piece has been picked up in more

than half of those media outlets. The outlets represent a potential readership of nearly one million people. The piece has appeared in both English and Spanish, including in Capital Weekly here in Sacramento, and it's widely read by the Sacramento policy community. It was also picked up by the LA Sentinel, the largest newspaper on the West Coast, focusing primarily on content for African Americans, and La Opinion, the largest Spanish-language newspaper in the United States. And this was an effort to highlight our mission to a wide and diverse audience, and we think it's a big win for the Lottery.

Lastly, the team produced this short video, also to highlight our mission. We've already shared it with newsrooms and our social media audiences, and today I'll close my remarks by sharing it with you all as well. Please enjoy. And I'll hold my breath while I try to do this work.

(Video playing).

All right. We hope you all enjoyed that. It's a preview of what's to come as we highlight our mission more and more to make sure everybody knows we're here for schools.

CHAIR AHERN: This is going to start your acting career as well?

DIRECTOR JOHNSON: I'm working on it, Mr.

Chairman. Not used to being on stage, but I'm proud to do it for our mission. All right. So, that concludes my report, and we are happy to answer any questions.

CHAIR AHERN: Any questions? All right. Alva, thank you very much.

DIRECTOR JOHNSON: Thanks.

COMMISSIONER MILLS: I just want to say a word of appreciation. Thank you, Director Johnson, for bringing these stories forward. I just think it's so inspiring, and it's really helpful to keep us grounded in what all of those numbers mean and how we're achieving that and helping the students across our state. So, thank you very much.

DIRECTOR JOHNSON: Absolutely. Thank you very much for our whole team. We've got a thousand people working at the Lottery, and we're all very proud of our mission. We're happy to highlight it. Thank you very much. Anything further?

CHAIR AHERN: All right. I think we're moving on to 6B, which is our Draft Fiscal Year 2023-24 Business Plan. Good morning, Jim.

DEPUTY DIRECTOR HASEGAWA: Good morning, Mr. Chairman, Commissioners, and Director Johnson. I have the honor of presenting the draft business plan for the upcoming fiscal year to be. With the plan being presented as an informational item this month, Commissioners will have time

between now and next month's meeting to ask questions, to, you know, gain deeper insights, and provide feedback. At the June meeting, the full plan will be formally brought to you as a voting item.

Okay. So, let me give you a little overview of what I'm going to talk about this morning. So, first off, I'll be recapping activities during the current fiscal year. That includes information such as sales trends, byproduct, Lottery playership, and performance of some of our key initiatives. We'll also then provide highlights from our review of the lotteries, other companies in the leisure and entertainment industry and general business trends. Then we'll move on and look at providing insights on what will drive the Lottery's future growth in sales and contributions to public education. And then I'll describe the proposed objectives that staff have for you for both this upcoming fiscal year and beyond.

So, all of this chart here looks like steady growth over the past several years for total Lottery sales, with the exception of fiscal year 19-20. Let me provide you some details about our sales history. The pandemic began in the third quarter of fiscal year 2020. This, along with very low jackpots in our Mega Millions and Powerball game, led to a decline in sales that fiscal year, from those two factors. As I'll describe in more detail in later slides,

Fiscal '21 and Fiscal '22 were highlighted by strong structure sales, leading to that growth. And then finally, during this current fiscal year, incredible sales in our jackpot games, they're fueling record breaking sales.

So, I'm now moving right to the jackpot games here. So, you can see jackpot games for here in California include multi-state games like Powerball and Mega Millions, and our own in-state game, SuperLotto Plus.

A large gain in sales this year is due to Mega Millions and Powerball combining to have seven draws where the jackpot was a billion or more. You'll probably hear that statement lots of different times. Something to celebrate. And just so you know the -- just for clarification, I'm sure you realize that the chart displays sales in millions of dollars. So, that means an estimated sales for these three games in the current fiscal year will combine for nearly \$1.8 billion.

Turning to Scratchers, this chart represents average weekly sales for Scratchers in each quarter, starting in January of 2019, running all the way through this fiscal year, including the estimate for the current quarter. Now, you can see sales declined at the onset of the pandemic in the spring of 2020, which is at a \$97.6 million average weekly sales for Scratchers. And starting in 2021, we started seeing that sales soared, peaking in the

spring of 2021. And during this time, we believe sales benefited from people wanting to enjoy some fun and leisure, yet were either unable or uncomfortable, you know, doing some of their typical pursuits, like traveling or dining in restaurants or going to the movies. And so, some of this unspent discretionary money was then used for the Lottery, and that's why we had some very strong sales going that time.

Now, however, by the spring of 2022, as things started opening up, you know, and people felt more comfortable returning to these other fun and leisure time activities, we started seeing declines in our Scratchers sales. And this decline was anticipated and built into this year's sales goal. And you can see that decline continues through this fiscal year.

The first quarter of this fiscal year, I have indicated here it says minus 7 percent, that means the average weekly sales from Scratchers in the first quarter of this fiscal year are running rather about 7 percent behind the weekly average in the first quarter of last fiscal year. And because Scratchers, as you can see, have some seasonality, we do year-over-year comparisons rather than prior quarter.

But I want to note that later in April and into May, we're now starting to see weekly sales in the current

fiscal year get above weekly sales in 2022. So, again, starting to balance out again. So, that looks good for Scratchers coming down road and for next year.

Now, let's turn to Hot Spot. Hot Spot sales has seen modest growth during the current year. However, after the initial months of the pandemic, Hot Spot sales rebounded pretty strongly, as you can see on that chart. It also is one of the key reasons was that we saw increased playership for Hot Spot. Many of current Lottery players who play other games sampled and tried Hot Spots during the pandemic.

For daily games, we also saw a boost in sales right after the initial months of the pandemic. However, as you can see, the current fiscal year, we are starting to see sales slightly soften a little bit. And that's going to be reflected when we start thinking about next year as well.

Now, the current year has also seen an increase in the percentage of California adults playing Lottery. It's higher than, you know, other years, as you can see by the little boxes around those other numbers. That means it's a statistically significant finding. Though the increases also were seen in Scratchers specifically for Powerball, Mega Million, and SuperLoto Plus. So, it wasn't just from the big jackpots that we got increased playership. Even Scratchers benefited from increased play during this current fiscal year.

Now, this information is from the Lottery's tracking study, where a different sample of California adults are surveyed each week. And the measure we're displaying here is the percentage of California adults, because we survey all California adults, not just players, all California adults, who have played any Lottery game at least once in the 12 months prior to them being interviewed.

Talking about the good stories that we were seeing, I wanted to share this information as well, because this looks at the percentage of California adults who hold a positive perception about the Lottery. And you can see that it's now statistically higher than it was like two years ago. And similarly, the number of California adults holding a negative view of the Lottery, you know, has declined over time from about 20 percent to 12 percent.

Now, just so you know what question we're asking, again from our tracking study, we asked California adults their overall feeling about the California Lottery on a 5-point response scale. It does allow the respondent to kind of answer the question from their own perspective. And so, what we're doing is we are doing an additional separate survey that will ask the respondent an open-ended question following this one. So, you can kind of gain deeper insights into like, the different attributes that people put in a way when they make the response to the overall feeling

towards the Lottery, and what product-related, more organization-related, or whatever it might be.

The tracking study also has some of the attributes, specific attributes that are aided and told to the respondents, but in the interest of time, I'm not going to go through all of those, because otherwise we'd be here all day.

Because the price data across our different products aren't the same, the share of sales coming from our four key categories of games is not necessarily the same as the estimated share towards the Lottery's contribution to education. This gets to a question that came up during the briefings.

So, this year, when there were big jackpots, you can see that Mega Millions, Powerball and SuperLotto Plus combined accounted for an estimated 35 percent of the education contribution, while representing just 20 percent total Lottery sales this year. But you can also see that because of the big jackpots, you know, the share of sales and the share of contributions to education from Scratchers changes a lot depending on what happens in those big jackpot games. And just with the bar on the far left and the bar on the right of the 18-19 year and the 20-23 year had big jackpots in them, and that's where the jackpot games had a much larger share of sales, around 20 percent and then

accounted for more than a third of our contributions to education.

And later on, when we start talking about the drivers and so forth, this is actually important because it's the reason why we emphasize some of our draw games so much in our plans and developing ways to increase sales in those products.

And on a related note, this chart shows how the California Lottery, you know, generated 23 percent of its lottery sales from all draw games. So, it'll be jackpot games, daily games, and Hot Spot combined, and conversely, they had reported 77 percent of sales from Scratchers.

But this chart compares us in the orange bar to other U.S. lotteries, and you can see that our 23 percent is on the lower end of the spectrum in terms of the share of sales coming from our draw game products. With the higher profit margins associated with draw games, you know, that's why programs to grow sales in these product lines are so important to increase contributions to education.

All right. So, now I want to share some of the results of the Lottery's key business plan initiatives from the current fiscal year.

First is the Scratchers category repositioning effort, and we've talked about this on various occasions. So, this strategic effort is to tackle one of the major

barriers to planning Scratchers by changing the way consumers see the product. The goal of this marketing effort is to show California adults how Scratchers games can have a small amount of play into their day, providing a respite from our everyday routine with a little fun and entertainment. The campaign started in September of 2021, and that's marked there by the green dash on the chart. And since that time, you can see Scratchers' playership, both from past year and past month standpoint, has grown to be, you know, higher than it ever has been in the past 10 years. So, that's some evidence to show that our efforts are striving to come to some positive results for you.

From this chart, you can see how the campaign elevates Scratchers in the minds of consumers. So, top-of-mind awareness and this is only amongst our infrequent or casual Scratchers players. It's increased since this Scratchers category repositioning effort has begun. So, when consumers go into the store, they're more likely to buy a brand that easily comes to mind, whether it be a Lottery or anything that you might buy in your everyday lives and so forth. And that's why top-of-mind awareness is important to our marketers, and it's the measure that we look at all the time, and you can see that it's reaching the intended target of our casual players.

Now, this effort is more than just advertising and

good product in various media vehicles. It also spans the product itself. To help bolster the perception of the games as being fun and playful, different types of themes, including known brands, such as, you know, the vintage video game Space Invaders, as you see there, or the classic TV show, the Addams Family, have been introduced to Scratchers games.

Now, for the games, that would be all the games except for Magic 8 Ball and Uno, they were launched during the fall, and they were part of a study that tried to look into these types of games and to see the impact that they have. In the months after these four games were released, various perceptions about Scratcher's brand being exciting and offering a variety of different games that appeals to everybody, they were very strong. But, you know, by January, that number started to decline as these games were no longer as prominent in the mix.

So, we're seeing that as a good promising insight for these types of products. In the months after these games were released, various perceptions about the Scratcher's brand being exciting, buyers -- that are appealing to different (inaudible) were strong. But the other thing that was really important is that consumers who remembered that these games were in the mix, when we showed it to them, they in general had more positive perceptions

about Scratchers in general than respondents who didn't remember seeing these kind of more unique and fun games. So, again, the presence of these games are important to help elevate the brand.

Now, it's not just all about perceptions. So, the Addams Family performed really well from a sales standpoint. It approached pretty much the average game sales for a \$5 product. And that's because this game really appeals to both core and casual players, which is the right mix to get both good strong perceptions, but also to have good sales.

And the game that was called Pumpkin Spice generated a high trial amongst our casual players. Thirty one percent of casual players had bought that ticket, which was a lot higher than the other games I showed you.

Now, last year I mentioned a key game in the product plan for Fiscal 2022-23 was the first \$30 crosswords game here in California. There are extremely successful crossword games at the \$3, the \$5, the \$10, and \$20 price points. At the end of February, the \$30 game was launched, and it sold very well. So far, since early February, over \$150 million worth of tickets have been purchased by consumers of this \$30 crossword game. And as you can see, weekly sales are still above \$10 million, even in three months after its introduction. And you can also see that this game, the red line, is higher than the last \$30 game we

launched back in August.

Now, crossword games typically stabilize and have strong sales week after week because of its extended play feature. And you can see that the gap is growing in the last few weeks of that chart, so we expect it to stabilize and consistently deliver very big sales for us going into next year.

Now, switching gears a little bit from Scratchers to turn into our draw games, the last phase of a multi-year effort to place and upgrade the signs displaying the jackpots or top prizes as we call them in some of the other games that occurred this year. During this three-year period, which is ending this fiscal year, over 6,100 signs have been installed across the retail network. The goal is to expand signage precedents, and this includes adding signs in new locations that didn't have one before, as well as upgrading signs to increase the number of games being featured.

Now, the photo shows a sign that displays all five draw games that have a jackpot. So, some (inaudible) previous might have only had what's called a three-tiered sign or a two-tiered sign, only two or three of the games. But now with a bigger presence, it can showcase all of the games. And the other nice feature that you can kind of see where the arrow is pointing, the word million there under

Powerball and Mega Millions is an additional display, and that allows it to either say millions or billions depending on the size of the jackpot.

All right. On the retail side, kind of the largest initiative during this fiscal year was the expansion into Walmart Supercenters. You might recall me talking about it a year ago. This project was large because it also involved lots of divisions within the Lottery, and as such, it was a very collaborative effort for the organization. The Lottery succeeded in getting all the approved locations installed and selling before the holiday period. That's quite an accomplishment. There is 183 stores, and there is many steps in this process, I have been told. I haven't been part of that process, but staff related to me all that's involved. There is floor plans that have to be reviewed. They have to check to make sure that electrical outlets are available to plug the machines in. We have to install the equipment. Our AGT installs the equipment. Then we have to train all the store personnel. There's a lot of effort involved.

And in addition to that, to help build awareness of the Lottery now being available at Walmart, Lottery sales staff conducted over 100 in-store events to promote the Lottery and gain some fanfare, so people became aware that Walmart, now Walmart Supercenters, now sell lottery tickets.

Now, there is still 26 more Walmart stores that still need to submit floor plans to the Lottery to show where the machines will be and all and get that whole process started. And that's now being geared up.

And just so you know, the Walmart Supercenters have been delivering stellar sales, you know, ahead of our expectations. To date, they have combined for nearly \$30 million in sales.

In a separate but very related project, selected existing retailers received new self-service machines that were replacing older models. These units, LGT 28s, can sell four additional Scratchers games. And you can see in the larger photo there that there's 28 facings of Scratchers that you can see there. So, that gives the retail -- consumers four additional choices and options to make purchases. And just like, you know, ice cream or whatever, the more choices allows more opportunities for making a sale.

Additionally, these newer models showcase our draw games better. As you can kind of see in that one other photo right there with the big impression of the jackpot. So, now --

CHAIR AHERN: Are these credit card or cash?

DEPUTY DIRECTOR HASEGAWA: No, they're only cash.

CHAIR AHERN: Only cash?

DEPUTY DIRECTOR HASEGAWA: Yeah.

CHAIR AHERN: Any thought of trying to make them available to credit cards?

DEPUTY DIRECTOR HASEGAWA: Yeah, I'll, actually, we'll -- you actually must have read ahead because those slides that's in that we want to start considering.

CHAIR AHERN: I didn't see it on there -- it's been a long day.

DEPUTY DIRECTOR HASEGAWA: Okay. But analysis is underway to determine the additional sales and profit for both Scratchers and draw games from these (inaudible).

And the last program that I want to share is some of the results today. It involves offering Lottery winners of prizes up to \$1,000 the ability to claim that prize at a district office and with most individuals being eligible to receive their check right on the spot.

You remember this program that pay at the district office program. The standard processing time for winning tickets submitted by mail is about six to eight weeks. This is a huge, big customer experience in customer convenience.

Last spring, to give you some data, last spring, three of the nine offices kicked off this program. This spring, three more offices added this service. So, in terms of the metrics in March and April of '22, we delivered over

4,200 prizes with this program with three offices. And then with the year later, March and April of '23, it's about two and a half times the number by expanding to the six offices. We've added to Rancho Cucamonga, Costa Mesa, and Santa Fe Springs. In addition, to the original Sacramento, Fresno, and San Diego. And I'd like to note that I understand that the last few offices are just starting to offer this program. Kind of rolling it out just now. We've had a week's worth of data on it.

DEPUTY DIRECTOR BUCHEN: Two days.

DEPUTY DIRECTOR HASEGAWA: Two days, excuse me. Two days. So, that's -- it's really breaking information.

All right. So, let me talk a little bit more here. So, one of the things I want to share in terms of other business trends or other trends in general that we're all experiencing is higher prices with inflation and consumer price index. And it does create a situation where setting goals for next year is a little more difficult because we don't have any recent history with inflation at this rate and how it might impact Lottery purchases. So, you can see that over the last, what is it, 14 years or so, we haven't had any close to the 7 percent increase in the consumer price index. So, it gives us a little caution or a little note to be a little more cautious and conservative with setting our sales goals for next year because it's a

little unknown entity out there.

The other thing I wanted to point out is about the size of our retail network. The number of retailers selling Lottery increased is well above the pre-pandemic levels now. You can see that starting in the spring of 2020, the number of Lottery retailers began to decline as businesses closed in response to the pandemic. But it started to rebound during the summer of 2021, and now we are at over 23,300 retailers in our network.

This information is from the U.S. Federal Reserve study on consumer payment that occurs every October. And this shows how payments in stores and gas stations and restaurants and bars grew in 2022, you know, of course, after dipping during the pandemic. And this bodes well for the Lottery as people return to shops and stores. However, this slide also shows about the transactions being paid in cash pretty much stayed at the same level. And all the growth were from non-cash payments.

So, we've previously reported in prior business reviews from the same study about how the use of cash has dramatically declined over the past six or seven years. And we will share later how many people see the need to carry cash to buy Lottery tickets as a reason why they don't play the Lottery often or at all. Because many people just don't carry much cash on hand, and it really hinders an impulse

purchase or an unplanned purchase. You have to like decide, oh, I have to go get money from the ATM because I'm going to go buy Lottery tickets. So, this you'll see is one of our barriers.

We also review sales from other lotteries in the U.S., as well as, you know, changes in their products and their programs. Here is one example that looks a Scratchers tickets or in some states they're called Instant ticket sales. And you can see that one of the things that we noticed is that our year-over-year decline is there in red started a little bit later than what some of the other jurisdictions' experience. And also, you'll see that by October, November, December of '22, some of those other jurisdictions are starting to see year-over-year gains. And so, when we were coming to this, we still hadn't seen year-over-year gains in our own Scratchers sales. And so, we thought it would be turning around. And like I mentioned, it did about in April or May is when we started seeing our positive numbers year-over-year sales.

Ande we also looked at trends in, followed sales trends in other entertainment and leisure activities. So, on the left, you can see that the airline industry. Here are our new Southwest passenger revenue because you get their data very easily off of their website, to be honest. And so Southwest, you could see, has returned to pre-

pandemic levels in terms of the passenger revenue. However, movie theater box office revenue is still 20 to 30 percent below pre-pandemic levels. And you can see it hasn't changed. It's still down by a bit. The trend line doesn't show like it'll change anytime soon to get into pre-pandemic levels.

We also looked at, through the Las Vegas Convention and Visitors Authority, which has a large database, looking at the Las Vegas visitor count and the gaming revenue coming from the Las Vegas strip. And you can see that the visitor count is about at pre-pandemic levels. And gaming revenue is about 20 to 30 percent above pre-pandemic levels. And so, their history kind of mirrors some of the experiences we had that we have maybe a little, for a while, downturn in playership, but we did have more greater sales. And now our playerships has returned to above -- actually, exceeding prior levels.

I also wanted to share some insights from a study the Lottery Commission to better understand the consumer purchase decision process. Now, this study interviewed 1,400 people across all of our player segments, and the survey dealt with their most recent purchase of lottery tickets. And that transaction had to be within at least the past month. And that was so that they could recall a lot of details about that purchase.

So, the first chart, and actually there's only one chart. There's all these states and their findings. It's looking at the left of the chart, the two bars on the left, you can see that a little more than half of all Scratchers purchases in the study were planned. And by planned, I mean, it means that one of the reasons the person made the shopping trip at all was to buy a lottery ticket. They may have also planned to buy other items as well, but they knew prior to going to the store that I'm going to buy a lottery ticket. And that's what we defined as being a planned purchase. And this means that 45 percent of the Scratchers purchases were not planned. That means something triggered that purchase once they got in the store.

You'll also notice that for jackpot games, more of the purchases are planned purchases. So, people maybe hearing something in the news about the jackpots or something. Many people already have an idea. I got to go buy a lottery ticket and go to a store specifically with that in mind. Now, considering that our products are relatively low cost, they're, you know, non-essential items, it, to me, it's very interesting that so many lottery purchases are planned. And we'll get into that in just a second.

So, some other insights. Probably not surprisingly are core players, our more loyal players.

Those individuals who play more frequently, are more likely to have planned purchases than, say, casual players. That's probably not too surprising. But this has implications for developing strategies to increase the frequency of purchases amongst our casual players.

Another thing I wanted to point out is that purchases made in drugstores and supermarkets are more likely to be unplanned, we found. And this makes sense given that buyers said the primary drivers for an unplanned Lottery purchase include things like seeing the tickets, seeing the Lottery signage, seeing a vending machine. And in drugstores and supermarkets, they are all sold out of self-service vending machines. So, that's a large piece of equipment that's being shown, you know. You saw the units earlier. So, that kind of does make sense. And on the flip side of that, you can see that purchases in liquor stores, they're even more likely to be planned. A higher percentage.

So, you can see that, speaking again about supermarkets, you can see that over 40 percent of players rarely -- and these are people who play the Lottery, over 40 percent say they rarely or never buy lottery tickets in a supermarket. So, they were followed up with asking, well, why is that the case? And the key barriers cited were they don't think about Lottery when they're in the supermarket or

they're wanting to get in and out when shopping in there. And so, this has implications because if, you know, in the supermarket environment where they're sold, if you want to buy both groceries and Lottery, it's a two-stop process. You buy your groceries in the checkout line, and then you have to go to the second location to buy the Lottery tickets at the self-service machine. So, this shows how that is someone who has a barrier. And that's why solutions like being able to buy a ticket in the checkout lane that some states have started to pilot and implement. And I think I showed some examples of what some states were doing a year ago. That's why those things might be good examples of how to overcome these barriers of playing.

And in terms of the last one, 30 percent of our players rarely or never buy tickets at the liquor store. And the key barrier there is they don't shop at liquor stores at all. And so, that's a key reason why we need to further diversify the types of retailers, the types of stores who sell our products so that we can more easily be convenient for everybody.

CHAIR AHERN: And Jim, have we done any studies on the players? Do they like the interaction between buying from someone and handing it over -- having it handed it to them or do they like the machine, vending machine better?

DEPUTY DIRECTOR HASEGAWA: I think it's a

personal choice based on -- I don't think this is more of a qualitative, like, more focused group. So, I don't have numbers to support it. But some people like to have the interaction with a live person. And other people don't because they want to like figure out what game do I want to buy. There is no -- they don't have to like wait -- have people waiting on them because of the time factor or guilt factor of taking up someone body's time. So, they can just look at a machine and it's more -- they can just take their own time and do it. So, it really is a personal preference thing.

CHAIR AHERN: Okay.

DEPUTY DIRECTOR HASEGAWA: All right. So, in order to grow sales and contributions to education responsibly, because that's part of our -- in our mission statement is to grow sales but grow them in our responsible manner, efforts need to be focused probably more on our infrequent players to get them to play a little more often. And that's particularly true for Scratchers. And we have studied casual Scratchers players quite a bit to understand the reasons that tend to prevent them from buying more often or at all.

So, those include kind of the purchase process. Two elements on the purchase process. One is a solution about cash. It's like I don't have cash in my hand, that's

a variable at play. And the other one for a casual player is the fact that, as we talked about, most retailers have quite a large variety of games to showcase the player, 24, 28. Somebody just have 30 or 40 different games, and that becomes very daunting for a casual player. Like, well, there's so many choices and all that kind of gets them out. So, they end up deciding the easiest way to solve that problem is not to buy. So, those are two purchase process areas that we need to be (inaudible).

And there's another area about -- is a perceptual one. Many players just see a Scratchers ticket. It's only about winning money. And so, they have guilt about playing, about spending money on that. They don't think about that moment of fun and that moment of play. And that's the whole reason behind the Scratchers category repositioning effort to change that attitude. It's not just about win/lose proposition. It's about enjoying it and having some moment of fun.

COMMISSIONER MILLS: It's also about the contribution to education.

DEPUTY DIRECTOR HASEGAWA: Yeah. And that's where the third one comes in as a barrier that, for some people, it's building more trust in the organization that includes that the funds go where they should go. As well as, for others, they know that they go to education, but

they want to know that it's being put to a good use, the application of how the funds are used.

So, you can see that a large number of the planned purchases probably tied to the need to have cash on hand to buy lottery tickets, because people don't always have cash on hand. Even if something strikes them in the store, they don't buy it, they can't buy it.

All right. In the home stretch, I promise. All right.

Through some of the information I've shared, you know, some of the issues and initiatives that can drive future growth in sales and contributions to education have been raised. But now I'm going to discuss the proposed business objectives that are strategically important for the Lottery too, so that we can continue to grow our contributions to California public schools.

Now, this first area of a product issue dealing again with our casual lottery players is to expand opportunities for casual Lottery players by removing those barriers. And I did talk about them, and there are more than one. And as such, there are going to be many routes and strategies under this objective, since there are multiple barriers to play. And ultimately be successful here, there need to be concurrent efforts on several fronts. For example, I showed you that, you know, even as consumers

change their perceptions about Scratchers being a product, you know, offering that moment of play and are more open to buying the ticket as a result. Well, even if the person might think of making a purchase but they realize they don't have any cash on hand.

So, the marketing and advertising efforts have kind of changed perceptions, but again, maybe they don't make all those purchases because they don't have carry much cash. That's why multiple efforts, multiple strategies of operating concurrently on multiple fronts will be needed to really make this successful -- that we can really measure this successfully.

The second product issue goes back to involving our draw games. So, as you -- earlier you saw growth in these games can deliver a higher percentage to the bottom line, and thus its sales growth provides more for education. And compared to sales in other U.S. Lottery jurisdictions, there does appear to be growth opportunities here in California. So, that's why this is, again, a key product issue, a key objective.

Finally, in that same reasoning, is that player spending on these games across both player spendings is relatively low compared to Scratchers. For example, a core player, which means a person who plays on a regular basis in our jackpot game category; they spend on average about \$13 a

month on Mega Millions, Powerball, and SuperLotto Plus in buying. So, it's not a lot of dollars, so you can still grow the core player segment responsibly, and so you increase contributions to education. And that's, for all these reasons, the Lottery needs to continue to grow draw game sales between the jackpot game and Hot Spot categories.

The third objective is about the Lottery retail network. Now, the Lottery retail network, it's one of our key assets. There are not only 23,000 locations where tickets can be sold, that's the point of purchase. But you should also think about, there are 23,000 places where consumers can get a visual reminder about the Lottery, positive touch points, seeing our product, or people engaging with our product. So, we need to kind of leverage all of that to really gain the strength that our retail network really poses for us. I think a lot of companies would love to be in our situation with having 23,000 locations, not just to sell, you know, but we have the opportunity to put a point of sale through our play centers and so forth. So, it really is an important asset.

We need to help diversify in terms of new types of retail stores. And to do that, we might need to explore new ways to sell tickets, such as the in-lane that I talked about earlier. But we might also have to look to explore additional business models. And the reason I bring this up

is probably because I'm older and I've been here at the Lottery a long time, but I recall a time, about more than 20 years ago, when Lottery was trying to expand the network, and, you know, our people who recruit our retailers go there and there are certain barriers. They don't want to do business this way. And so, what started as an idea and got developed over the next several years ended up being our route sales model. We have route sales people employed by the Lottery, doing some of the work that some other retailers in the traditional models do. And we kind of pioneered that in the Lottery industry. And we got piloted, successful, and it's standard so that we have many retailers, the CVS retailers, the variety retailers, and the Smart & Final retailers, it's under that model. And I believe some way, they probably do something in total, maybe like \$30, \$40 million in sales. So, we might need to kind of think of new ways to kind of fit the retailer's needs and develop new models of doing business with them for us to kind of go into some of these new channels. And this is not going to be a one-year proposition, I tell you, but at least it's something we need to start working on. And that will be part of our, you know, longer-term effort.

COMMISSIONER ALVIDREZ: Jim?

DEPUTY DIRECTOR HASEGAWA: Yeah.

COMMISSIONER ALVIDREZ: And I would argue that

when we look at this retail issue and some of the bullets that you have here, that as we look to increase visibility and presence of the Lottery retailers in certain areas that we be mindful of public perception. More certain areas than how it sometimes feels like over saturation of these gambling entities in certain communities.

DEPUTY DIRECTOR HASEGAWA: Yeah. And I think it goes back to the like the point we talked about supermarkets. In supermarkets, people don't think about is we don't have, well, one, it's a very big footprint. And so even if we do have a sign, it's one of many, but -- versus, say like a, some other stores and neighborhood stores and so forth. And I see your point. But it's really just trying to increase visibility and presence in some of our existing locations, find more of our chain locations when you think about it, larger footprint areas, and working with partnerships. So, it's a win-win situation with them.

Because we really, it allows people to -- there are many people who don't even realize that we sell in all supermarkets. Because they don't necessarily always see it or don't notice any machine in the store at all. So, it's really to try and partner up with retailers as best we can and figure out to, you know, increase the visibility and presence of the Lottery. And obviously, those retailers want to increase their own sales because they get a

commission out of it. So, they're oftentimes looking for opportunities as well. But we are very mindful of the issues that you have there.

The fourth objective, one that is a continuum because it's one that we've been discussing prior. It's really to continue to improve knowledge and perceptions about the Lottery. We're seeing results with the efforts so far because our overall perceptions are improving. But it's a key part of a multi-product to really, you know, engage our players, the general public, and also our stakeholders, and others, to learn about the Lottery and to find different avenues to improve perceptions about us as an organization and our games.

So, those are the business objectives. So, the next steps is to determine for Lottery stats is to determine which of the various tactics proposed for next year, you know, should be included as part of the business plan to achieve these objectives. And, you know, based on the budget dollars available and the availability of staff resources to execute these initiatives. And then that assessment and those are really happening over the next month. So, as you have either questions today or you can comment with questions subsequent to today, then we'll obviously incorporate those to the final plan reflects both, you know, anything that you want to offer as a response to

these proposed objectives, along with our review of budget availability and staff availability to execute the various initiatives. I know I did take a long time, but I'd be happy to answer your questions or anything you have at this time.

CHAIR AHERN: All right. any questions for Jim?

COMMISSIONER MILLS: I have --

CHAIR AHERN: Go ahead.

COMMISSIONER MILLS: I do -- I have two questions, Jim. Thank you for that presentation. It's always a lot of information, but really, really good stuff. I tend to be a little bit of a data geek, so I can appreciate the level of data that you present.

And two questions. One is around how I felt like there were sprinkles of information throughout the presentation about achievement against prior year objectives. But I couldn't quite get, like, it would be really helpful to see like what were our objectives last year, and how did we perform against those and which of those are, you know, pivoting or carrying forward or changing course, you know, for whatever reason to see our progress. Because I saw sprinkling of that in there, but it wasn't -- I couldn't feel like I could get a great grasp on that.

And then my second question on the objectives is

how do we make sure that we can measure success? Because I didn't see, and maybe that comes with the next phase of tactics or as you kind of continue through the process, but I didn't see any numeric goals or some of them you can't put numeric goals to, but let's make sure that we can put parameters in our objectives that can help us clearly measure success.

DEPUTY DIRECTOR HASEGAWA: Yeah. And I think at this stage, we can't put all of that in because we don't know which tactics are going to be part of this to achieve those objectives at this stage. Once we know the tactics that we're going to entertain, then we can kind of do some measurements. The measurements though, I like what you say, is against the objective, not necessarily against each tactic, because sometimes you can't measure the impact of one element because it's, you know, multiple elements are impacting the same objectives. So, yes, we can have measurements against the overall objective. We may not be able to attribute what percentage of that sales role is due to this one specific program, not this program, but overarching all of these programs and this objective, what is our aim and so forth? But that we can frame once we kind of finalize the objectives and the tactics that we'll be able to execute next year. Again, based on the budget and the staff availability to execute those.

COMMISSIONER MILLS: Wonderful, thank you. And I do have one other question.

DEPUTY DIRECTOR HASEGAWA: Uh-huh.

COMMISSIONER MILLS: I don't have a slide number on this, but it was a slide about the -- it's California has lower share of sales coming from draw games than in --

DEPUTY DIRECTOR HASEGAWA: Yeah.

COMMISSIONER MILLS: -- the other states, and we're down in that lower spectrum.

DEPUTY DIRECTOR HASEGAWA: Uh-huh.

COMMISSIONER MILLS: I think I saw that that's part of one of your strategies, right? Your objectives, sorry, that's the right word, to, you know, to increase that percentage. But I wondered if you could talk a little bit about, do we know the reasons why we're in that kind of --

DEPUTY DIRECTOR HASEGAWA: Yeah.

COMMISSIONER MILLS: -- (overlapping)?

DEPUTY DIRECTOR HASEGAWA: Yeah. We will never be as -- oh, there is the chart -- so that everybody else. We'll never be as high as some of the states on the far left. And you notice there is definitely a geographic skew between the states on the left, other than Wyoming and like, North Dakota. The reason they're 100 percent is they don't offer any penny-Scratchers tickets for sale.

COMMISSIONER MILLS: Okay.

DEPUTY DIRECTOR HASEGAWA: So, that's the reason why they're at a hundred percent. But beyond those two states, a lot of the states on the left, not all of them, but a lot of them on the left, tend to be eastern states, northeastern states in particular. And that's because they have a very strong daily games product and that's historical. To be honest, in those jurisdictions, in those states, daily numbers was run as an illegal operation. And the Lottery introduced the games to just legalize some activities that many people were doing illegally previously. And that's why states like, you know, New York, Maryland, and so forth have very high draw game sales, because they sell a lot of the three-digit number and the four-digit number in games.

CHAIR AHERN: And some of these states are involved in multi-state games that caused big jackpots. Correct?

DEPUTY DIRECTOR HASEGAWA: Yeah. Pretty much most states have, including us have multi-state, are part of multi-state. Some of these jurisdictions also are involved in other multi-state games, you know, Mega Millions and Powerball. There are -- because some states can't generate like a -- an equivalent of our SuperLotto Plus jackpots or even the cash buy-in games, you know, Fantasy 5 games that they offer. And so, they kind of coalesce together to

create multiple jurisdiction games or even smaller games that then can lead to Powerball.

Another factor that is the case in some areas is also because of population density, and also what's called the terminal density. It's just very convenient to find a Lottery retailer and a Lottery terminal. The number of terminals per population is a lot more dense in some of those, particularly in the eastern jurisdictions, than it is here in California. And this is some of the factors, even when considering those factors, like, we do think that we can grow our draw-game sales. Some of the reason is that once the legislation got passed that allowed us to higher payout, the organization had to show that higher prize payouts do deliver more. And so, so much emphasis initially was placed on Scratchers and so, now we just (inaudible) and we also do more instant draw games.

CHAIR AHERN: All righty. Thank you very much, John.

DEPUTY DIRECTOR HASEGAWA: All right.

CHAIR AHERN: I appreciate all the effort.

DEPUTY DIRECTOR HASEGAWA: Okay. Now, I have to advance all the slides up so that they won't have to. Okay. There. Thank you.

CHAIR AHERN: All right. Moving on to 6C, which is of the Draft Fiscal Year, 2023 to 2024 budget.

Nick, good morning.

DEPUTY DIRECTOR BUCHEN: Good morning. All right. I will provide an overview of the Lottery's Draft Budget for the 2023-24 fiscal year, which begins on July 1st. Certain pieces of this draft budget are still being refined, and I expect there will be some relatively minor changes when I present the budget for your approval at the June Commission.

So, although it's not completely finalized, I'm presenting this draft as a non-voting informational item today to allow you to weigh in on the direction you're headed and to provide you an opportunity to get more consideration and to be better informed when you vote to approve the budget next month.

And before I get into the numbers, I want to provide a quick recap of the Lottery's budget development process. As it has been done for the last several years now, the Lottery develops the operational expense budget from the ground up, which is referred to as zero-based budgeting. And this means that each individual element was vetted and justified prior to inclusion in the draft budget, which enables resources to be concentrated where they're most effective and best aligned with the Lottery's strategic objectives.

The Business Planning team develops a preliminary sales goal by product, incorporating projected gains from

initiatives that are already in progress and we then determine the associated prize expense. This in turn allows for retailer compensation and gaming costs to be completed, since these are primarily driven by sales. And the result of this process is the Draft Fiscal Year 2023-24 Budget projecting \$8.6 billion in sales revenues and contribution to education of more than \$1.8 billion. And don't worry about trying to make out all the details on this slide. I'll be going over the major sections separately.

So, each slide I'll go over with you today compares our estimated revenues and expenditures for the 2023-24 fiscal year to our estimate of how we will end this current fiscal year on June 30th. And with that said, let me set the stage for what you'll be seeing today.

As was the case in last year's budget, we are again projecting a year-over-year decline in both sales and the resulting contribution to education for the coming fiscal year as compared to what we were on pace to actually realize in the current fiscal year. And this time the reason is entirely due to the much better than expected performance we had in Mega Millions and Powerball in this current year. I'll go into more detail on that in a moment.

If we instead compare the 2023-24 budget to what was budgeted in this current fiscal year, we are projecting year-over-year modest gains in both sales and supplemental

funding for education.

A couple of quick housekeeping items. All dollar amounts on these slides are in thousands. And please stop me any time if you have questions.

As I walk through the draft budget, it's helpful to keep in mind the Lottery's budget is actually a very basic formula comprised of four major elements. Take the sales revenue minus the associated prize expense minus our administrative expenses equals the contribution to education.

CHAIR AHERN: Can we go back to one slide? Just -- maybe you're going to explain it. That there's a \$61 million increase of zero from 2022 to 2023. You're going to explain that later?

DEPUTY DIRECTOR BUCHEN: Yes. That's the -- those are our reserved items that I will definitely --

CHAIR AHERN: Okay.

DEPUTY DIRECTOR BUCHEN: -- touch on those later. But good question. Good observation.

So with our first major component of the budget is our sales revenues. We are projecting a, you can see in the middle of the column, we're projecting a total sales goal of \$8.62 billion in 2023-24. And the far-right column shows that that's a decrease of \$497.7 million from the sales level of what was projected in this current fiscal year.

And that represents a decrease of 5.5 percent.

And you can see on the second row, that the current year performance of our multi-state games is the sole reason for that projected year-over-year decrease in total sales.

And in this current fiscal year, we had three different Mega Million draws for which the advertised jackpot was \$1 billion or higher than \$1 billion. And for Powerball, we had four different draws this fiscal year for which the advertised jackpot was a billion dollars or more. And jackpots of these levels are very rare, and they cause our sales to grow exponentially. And with that said, we can't assume that we'll have that same good fortune in the coming the fiscal year. So, that's why we're budgeting less in those games.

On a much smaller scale, a similar effect explains the projected year-over-year decrease in our in-state lotto game, SuperLotto Plus. The jackpot for SuperLotto Plus has been rolling since it started at \$7 million on November 16, 2022. It's rolled continuously since then. It's currently at an advertised \$62 million for this Saturday.

And moving back to the top row now, Scratchers, the growth in Scratchers will partially offset those decreases I just spoke of. The Scratchers' total of \$6.6 billion for fiscal year 2023-24 represents an increase of

\$123.2 million over the current year. And that's fueled by several factors, including a full year of having a \$30 crosswords game and selling Lottery in Walmart Supercenters. And Jim spoke of both of those items. Both those initiatives began partway through this current fiscal year. An additional factor driving the increased Scratchers sales goal is a projected net increase of 150 stores in the Lottery's retailer network.

And moving down to Hot Spot, the \$445 million sales goal for fiscal year 2023-24 is \$33.4 million higher than what we're expected to achieve in the current fiscal year. And that's primarily due to an initiative underway with the planned implementation in the coming fiscal year that will significantly increase the prize payouts of the \$2 bullseye option while slightly lowering \$1 base Hot Spot payouts. And that will provide a greater incentive for our players to actually play the bullseye feature.

And lastly, the daily games, which are comprised of Fantasy 5, Daily 3, Daily 4, and Daily Derby, are projecting a year-over-year decrease of \$13.6 million for fiscal year 2023-24. And that's primarily due to better than anticipated performance in those games in the current fiscal year that we are not expecting to repeat in the coming fiscal year. And I want to highlight that the projected increases for year-over-year growth are in both

Scratchers and Hot Spot. And we have more control as compared to some of our other products in those two categories. For example, we are better able to influence sales in levels in those games by tweaking prize payouts. And conversely, the product categories were projected year-over-year decreases are primarily the ones for which performance is unpredictable due to the luck of the draw nature of the games.

And before I leave the sales section, I want to echo the caution that Jim provided regarding the high loss of inflation facing our consumers and how that creates uncertainty when setting the sales goals.

COMMISSIONER MILLS: Can I ask a question before we go off of this slide? That was really helpful. I appreciate all that information and that data. But I'm having a little bit of a disconnect between the objective to grow draw games sales and then the numbers we're seeing in the budget. And, you know, I get that we've had some really large jackpots, a lot of it's out of our control. But it would be helpful to kind of see how this objective feeds into the numbers --

DEPUTY DIRECTOR BUCHEN: Uh-huh.

COMMISSIONER MILLS: -- and maybe we could see that better through kind of a trend or, you know, something that shows us more growth over a more normalized number. I'm not

sure, I'm just having a disconnect between this big objective here and what I'm seeing in the numbers.

DEPUTY DIRECTOR BUCHEN: Right. And so, actually, the growth in Hot Spot is a prime example of what you referred to. So, that was an initiative that was tied to that objective, strategic objective, of growing the draw games particularly in the Hot Spot. And so that the changes they are making to that game are focused on driving higher sales in that game. And comparatively to other draw games, Hot Spot does have a higher prize expense, but it's still considerably lower than Scratchers. So, it generates more profit on a per log basis. So, that's why that's a focus. So, of that \$33.4 million projected yearly growth for Hot Spot, the vast majority of that is attributable to that one specific game change.

COMMISSIONER MILLS: Thank you.

DEPUTY DIRECTOR BUCHEN: So, the next area of the budget is prize expense. And on the second to the last line, you can see that prize expense is projected to total \$5.76 billion in the 2023-24. And that represents a year-over-year decrease of \$286.4 million. And that's 4.7 percent from the current year projection. And that decrease is driven by the overall decrease in sales.

The Lottery has a policy requiring the director to make an annual determination that prize payout levels across

all games have been optimized for the coming fiscal year to ensure that we are maximizing funding for education annually. And so, as we finalize the sales and prize expense estimates in the next few weeks, the budget I present for your approval next month will reflect the right to improve the optimal prize payout for the coming fiscal year.

COMMISSIONER MILLS: I'd like to ask a question about that too. Wasn't there also like an independent study done on the optimal prize payout (inaudible) that you can remind us what that is --

DEPUTY DIRECTOR BUCHEN: Sure, yes.

COMMISSIONER MILLS: -- (inaudible) called (inaudible) it's -- yeah -- to justify what you've --

DEPUTY DIRECTOR BUCHEN: So, the Lottery had a study conducted that it was completed in late 2020. And that study determined that the optimal prize payout range is between 65 percent and 67 percent of the total sales. So, you can see that with the draft budget, the 66.9 percent is right within that optimal range.

COMMISSIONER MILLS: Okay. Thank you

DEPUTY DIRECTOR BUCHEN: Uh-huh. Okay. So, the next major category of the budget is administrative expense, which the Lottery actually caps at 13 percent of total sales on an annual basis.

And so, this slide reflects the first two areas within administrative expense, which they'll reach their compensation and gaming costs. Combined, these are estimated to total \$743.3 million in fiscal year 2023-24. And that represents a decrease of \$43.2 million or 5.5 percent from the current year projection. Most of the items have projected year-over-year decreases, which simply mirror the projected decrease in sales. One exception is there is a modest estimated increase in Scratchers ticket costs. And that's primarily due to a projected year-over-year increase in Scratchers sales.

And the final area of administrative expense is our operating costs. And I'll go through these line by line. The first of these items is personnel services, and that includes the salary and benefit costs of all Lottery employees, including temporary help and over plan. And the projected \$14.6 million year-over-year increase is primarily attributable to paying less than anticipated in personnel costs in this current fiscal year due to an unusually high number of vacancies. And some of these vacancies were in hard-to-fill classifications, for which the Lottery is incorporating new engagement efforts to try to address. And other lingering vacancies were due to the hiring managers prioritizing other issues. And so, department wide will be putting a greater focus on filling vacant positions in the

coming fiscal year.

And the other component of this year-over-year increase in personnel services costs is the draft budget proposes the addition of 37 new positions for the coming fiscal year.

I'll go --

COMMISSIONER MILLS: I just have a question about that. So, on the personnel services line, does your budget number include zero vacancies?

DEPUTY DIRECTOR BUCHEN: No. For the coming fiscal year, we've budgeted at 14 percent. During the course of this current fiscal year, we went -- we advertised 20 percent, and we had it down to 15 and a half. So, we're projecting better performance but it's still not perfect. Okay?

Just so you know, even -- this isn't a specific problems with the Lottery. We look at statewide data and the vacancy rate statewide, is running high. We're actually currently beating the statewide rate. But even if the, you know, statewide issues weren't in play, we would never budget with zero percent vacancy because there's always going to be, you know, promotions, retirements, turnover, and again, you know, immediate hires.

COMMISSIONER MILLS: Great. Thank you.

DEPUTY DIRECTOR BUCHEN: So, I'll go into more

detail on each new position request when I present the budget for approval next month, but there are two main reasons driving the need for the 37 new positions.

The majority of them are needed to address infrastructural deficiencies, to enable us to provide the backend support needed to keep pace with our growth, and to proactively prevent issues that can lead to audit findings. And many of the proposed new positions are necessitated by growth over time in the Lottery's sales, prizes, and retailer network, which will enable us to provide better customer service to our external stakeholders such as our retailer partners and our players. To put some context on this, the \$136.4 million included in the draft budget for personnel services in 2023-24 represents just 1.6 percent of our projected revenues for that year. So, we continue to run very lean, even with the proposed new addition of new positions.

And moving to the next slide, the Marketing Program. We are projecting an annual \$15 million year-over-year increase. The primary driver of that increase is to expand the Lottery's Scratchers repositioning efforts listed in Jim's this presentation. And of course, that puts more emphasis on the fun and entertainment aspects of those games, and builds stronger appeal for structures, particularly among our casual players.

Another factor contributing to the year-over-year increase in the marketing program is projected cost increases of current advertising efforts. Some of the agency fees are increasing.

For the next line item, Contractual Services, we are projecting a year-over-year increase of \$3.1 million. That's primarily due to the higher costs for IT services. And also, it's to continue to invest in a public affairs agency contract to help develop and execute a strategy that uplifts the Lottery's mission and positions the Lottery in a favorable light among California adults.

And that --

COMMISSIONER MILLS: And with that, that would be a new endeavor?

DEPUTY DIRECTOR BUCHEN: It's right here. Is it actually beginning of this current fiscal year? It started mid-week of the year, and it was actually subcontracted through one of the Lottery's existing advertising agencies. So, having a dedicated contract for it in the coming fiscal year will better enable us to bolster public confidence and generate more for public schools.

COMMISSIONER MILLS: That's great. Thank you.

DEPUTY DIRECTOR BUCHEN: The next line, Depreciation, we're projecting a year-over-year decrease of \$1.5 million. That is due to us retaining some equipment

beyond its anticipated useful life, as well as costs for Lottery vehicles, for some Lottery vehicles shifting from depreciation to operating expense as we are leasing those vehicles rather than purchasing them.

And for the Operating Expense line, we're projecting a year-over-year increase of \$3.2 million. And the main reason for that is budgeting for a computer refresh. Costs that cannot be depreciated that are associated with the Lottery's renovation of its Northern Distribution Center and an increase in vehicle leases.

So, to the Chair's earlier question, the last two items we've been operating cost are the reserves. In the current fiscal year, we've reserved out the reserves since the items we've funded from them are already reflected as expenditures of the other operating cost items above it.

For 2023-24, we are again maintaining two separate reserves. First is the reserve for insurable risk at \$5 million. And that's to cover fiscal exposures for the areas of our organization that we are self-insuring. And then as shown on the next line, we have an administrative spending reserve of a little over \$61 million. And that is simply derived by formula. So, it's 13 percent of our total sales projection minus the sum of all unit administrative expense items above this line, including the retail and gaming costs from the previous line. So, that administrative spending

reserve acts as a safe area against uncertainties such as our sales do not remain as projected. And that reserve is also needed to meet our operational needs when unanticipated items arise through the year.

So, looking at the bottom line, the total administrative expenses, which is the sum of retail compensation, gaming costs, and operating costs, including both of the reserves, is projected to be \$1.12 billion in 2023-24. And that's precisely 13 percent of the \$8.62 billion in projected sales. And again, that's by design because the administrative spending reserve is a formula based on that. So, any unspent administrative funds below the 13 percent cap, including unspent funds within both reserves, will be transferred into their entirety of education. And the Lottery typically spends well below the administrative cap each year and has transferred more than \$1.4 billion in administrative savings to education to date.

And moving on to the last area of the budget, this is of course where the Lottery exists to provide supplemental funding to public education. So, there are a few additional items beyond the major categories I've covered that factor into the final contribution amount. Specifically, both unclaimed prizes and interest earnings on our cash sitting within the State Treasury are mandated to be transferred in their entirety to education. And assuming

both reserves remain unspent, the total projected contribution to public education is currently estimated to be more than \$1.845 billion in 2023-24. And although that is a decrease compared to the phenomenal success we've had in this current fiscal year, it should not take anything away from the impressive performance we are projecting for the coming fiscal year. And in fact, both the sales goal of \$8.62 billion and the contribution to education of \$1.845 billion are off the highest levels we've included in the Lottery's budget to date.

And as I mentioned here at the beginning, when comparing our estimated sales and contribution to education for our fiscal year 2023-24 to what was budgeted in this current fiscal year, you can see we are projecting modest year-over-year growth in both areas.

And my final slide today is a simple depiction to help dispel the myth of where all the Lottery funding goes. So, assuming the reserves remain unspent and excluding the unplanned prizes and interest earnings, you can see that 67 percent of our projected sales for fiscal year 2023-24 will go toward paying prizes, 21 percent will go to providing supplemental planning to education, 9 percent will be used to compensate our retail partners and pay for our gaming costs, and less than 4 percent will be used for our administrative expenses. And the 9 percent for retailer and

gaming costs combined breaks out as retailer compensation accounting for approximately 7 percent of total sales and gaming costs accounting for approximately 2 percent.

So, when you add all that up, 95 cents out of every dollar the Lottery brings in is returned to the public in the form of funding for public education, prizes paid to our players, and compensation paid to our retailer partners.

And that concludes my presentation. I'll be happy to answer any questions.

CHAIR AHERN: All right, thank you very much.

Any questions?

COMMISSIONER ALVIDREZ: Just a quick comment. I think your last statement about 95 cents of every dollar going back into public education, that's a significant percentage.

DEPUTY DIRECTOR BUCHEN: Uh-huh.

COMMISSIONER ALVIDREZ: And it's a great way to end the presentation because it's a number that kind of will resonate with me.

DEPUTY DIRECTOR BUCHEN: Yeah, that actually is included in all of our print pieces. The fine print at the bottom.

CHAIR AHERN: Okay, thank you very much, Nick.

DEPUTY DIRECTOR BUCHEN: Yeah. Thank you.

CHAIR AHERN: Appreciate it.

DEPUTY DIRECTOR BUCHEN: I'll be back next month for review.

CHAIR AHERN: Okay. A repeat. Okay. All right. Number seven is our next item on the agenda is a Consent Calendar. There are no items under consent calendar, so we'll proceed to the action items. Action items gets us to 8a, which is the Microsoft Unified Enterprise Performance Level Support Agreement by Jennifer Chan. Good morning, Jennifer.

DEPUTY DIRECTOR CHAN: Good morning, Chairman and commissioners.

Item 8a is a request for approval to renew the Microsoft Unified Enterprise Performance Level Support Agreement for a period of 12 months.

The Lottery is a Microsoft shop, and although we've used the Microsoft Unified Enterprise Performance Level Support Agreements in the past, last year was the first year the agreement reached the threshold for Commission approval. This was due to several critical Lottery technology initiatives that required specialized and dedicated support from Microsoft Designated Support Engineers, also called DSEs, as part of and in addition to what was covered under the agreement. These initiatives are continuing into fiscal year 2023-24, and as such, the agreement is up for renewal again.

The technology initiatives that will continue into fiscal year 2023 and 2024 include the following. The first is the Azure Cloud Infrastructure Expansion and Optimization effort. This effort will allow the Lottery to transition its aging end-of-life backup data center infrastructure to the Azure cloud infrastructure and reduce the Lottery's overall hardware maintenance and support costs, while also improving our disaster recovery capabilities.

The second effort is our data warehouse modernization and migration. This effort aligns with our broader strategy of leveraging modernized cloud services and will allow us to ensure continuity of our data warehouse capabilities. As an example, predictive analytics tools will increase our ability to forecast Lottery trends, such as ticket sales and drop-offs.

The next effort is our migration to SharePoint Online. This effort will allow the Lottery to leverage modernized Office 365 cloud services and offerings to improve our security, scalability, reliability, and reduce the maintenance of our physical on-premises hardware. This effort will also address end-of-life and legacy components, improve disaster recovery capabilities, and it also aligns with our overall cloud strategy.

And our last effort is to modernize a tool to support our in-house application development in Azure. This

effort supports our efforts to modernize internally developed applications and services by standardizing our development practices using the Microsoft Power Platform. This platform empowers our IT team to build and launch applications by utilizing standardized templates that leverage drag-and-drop functionality for quick deployment.

The Microsoft Unified Enterprise Performance Level Support Agreement is essential to conducting modern business and must remain uninterrupted. Without access to specialized technical expertise available through this agreement, the Lottery will not be able to engage Microsoft for necessary troubleshooting assistance. Therefore, Lottery staff recommend that the Commission approves renewal of the Microsoft Unified Enterprise Performance Level Support Agreement. The total contract amount is \$737,944 for a one-year term beginning July 15, 2023 through July 14, 2024.

And I'll answer any questions you may have.

CHAIR AHERN: Any of our commissioners have any questions for Jennifer? Hearing none. Does any member of the public want to address the Commission at this time regarding Action Item 8a? Hearing none. We have a motion to approve Action Item 8a, 2023-2024, Microsoft Unified Enterprise Performance Level Support Agreement?

COMMISSIONER RASOULI: Motion to approve.

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

COMMISSIONER ALVIDREZ: Second.

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

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. TOPETE: Commissioner Garrison-Engbrecht?

COMMISSIONER GARRISON-ENGBRECHT: Yes.

MS. TOPETE: Commissioner Rasouli.

COMMISSIONER RASOULI: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. All right. Jennifer, thank you very much. Your motion passes. We'll move on to Action Item 8b. We'll call on Jennifer Chan, the Lottery's Public Website Contract Extension.

DEPUTY DIRECTOR CHAN: Thank you. Item 8b is a request for approval to exercise one of our remaining two one-year extension options with an additional \$4,377,304 to expenditure authority.

The contract with ICF Resources LLC, or ICF, also formally known as ICF-X Incorporated, for public website or PWS services expires on September 30th of 2023. The Lottery

uses contracted services to manage the Lottery's public website platforms and cloud-based infrastructure. The public website must be available 24 hours a day, 7 days a week, 365 days a year to support operations, which is not achievable by managing, maintaining, and operating to supporting the website's in-house Lottery staff.

On May 27th of 2021, the Commission approved the Lottery's recommendation to extend the ICF contract by two years to September 30th of this year to add an additional \$7.5 million in expenditure authority. The intent of this extension was to add PWS functionality and features that were on the previous website, enable hardware migration, and to provide time to conduct solicitation and award a new contract for PWS services.

Since the approval of that last extension, the Lottery developed and posted a request for proposal or RFP on October 6th, 2022 with an estimated contract award and start date of July 14th of 2023. However, in February 2023, the RFP was canceled, and as a result, the procurement of a new contract award had been delayed. By March 3rd, 2023, a revised RFP was released, and it -- with a final vendor response date of May 26th, 2023. The Lottery received approval for a new contract award once a winning bidder is selected -- uh -- from the Commission later this year.

There are currently two remaining one-year

extensions on this sustained ICF contract. Exercising one of their two remaining extensions will ensure that there are sufficient resources to support the Lottery's PWS and allow the Lottery sufficient time to complete the RFP and contract award process and will also allow for necessary time to transition over to the new vendor and address any other unforeseeable delays that may occur.

Therefore, the Lottery recommends the Commission approve the one-year extension of the ICF contract and an additional -- and an expenditure authority of \$4,377,304 to continue the contract without interruption. The contract will now expire on September 30th of 2024 and have a maximum authorized contract expenditure amount of \$28,377,304.

And I can answer any question you may.

COMMISSIONER AHERN: All right, Jennifer.

Commissioners have any questions regarding Action Item 8b?

COMMISSIONER MILLS: I've got a question, Jennifer. Thanks for the presentation. I have a question about the RFP process and maybe what, like, what triggered us to start an RFP process knowing that we had extensions available, and then what were the challenges in that RFP process, and because it makes me think that maybe we weren't -- or are there challenge -- and are there challenges with our current provider?

DEPUTY DIRECTOR CHAN: So, we were anticipating

to do a new solicitation anyway, knowing that the existing contract that would expire. And so, with the optional extensions that were available, we wanted to go ahead and use optimal sufficient time frame to work on RFP. So, we chose the path of competitive solicitation. So, that was the reason to choose RFP path.

As far as the fact that we have a competitive solicitation in play right now, I can't speak too much to that in order to -- I don't want to jeopardize the actual solicitation process, but I can say that the bid was canceled to address some issues within the bid due to non-responsive bids that we had received based on the administrative process and the bids that we did receive the first time around. So, we made corrections to the solicitation, we reissued, and bids are now due this coming Friday. So, we do hope to expect to have some responsive bids this time around.

COMMISSIONER MILLS: Wonderful. I know there's so much time that --

DEPUTY DIRECTOR CHAN: Yes.

COMMISSIONER MILLS: -- the process takes too. It breaks my heart to see one canceled. This is a lot of work.

DEPUTY DIRECTOR CHAN: It is.

COMMISSIONER MILLS: And so, the current provider, are there any challenges with the current provider?

DEPUTY DIRECTOR CHAN: We have not had any challenges. The challenges we have had, we've worked through with them --

COMMISSIONER MILLS: Okay.

DEPUTY DIRECTOR CHAN: -- through the entire process.

COMMISSIONER MILLS: Okay. Thank you.

CHAIR AHERN: All right. Any other commissioners have any questions regarding Action Item 8b? Seeing none, do any members of the public want to address the commission at this time regarding Action Item 8b? Hearing none, I hereby motion to approve Action Item 8b, the Lottery's Multiple Website Contract Extension.

COMMISSIONER MILLS: Motion to approve.

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

COMMISSIONER GARRISON-ENGBRECHT: Second.

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

MS. TOPETE: Commissioner Mills?

COMMISSIONER MILLS: Yes.

MS. TOPETE: Commissioner Alvidrez?

COMMISSIONER ALVIDREZ: Yes.

MS. TOPETE: Commissioner Garrison-Engbrecht?

COMMISSIONER GARRISON-ENGBRECHT: Yes.

MS. TOPETE: Commissioner Rasouli.

COMMISSIONER RASOULI: Yes.

MS. TOPETE: Chairman Ahern?

CHAIR AHERN: Yes. All right. Jennifer, your motion passes. Thank you.

DEPUTY DIRECTOR CHAN: Thank you.

CHAIR AHERN: Next on the agenda is the Commissioners General Discussion. Do any commissioners have anything they'd like to bring up at this time? All right.

I would like to note that the Commission will elect its chairperson at the June commission meeting. A commissioner can self-nominate or nominate another commissioner to serve in the role. If you have a nomination, please direct those to me and I'll make sure the audit team is made aware. All right?

Next item is Item Number 10. We have tentatively scheduled the commission meeting on June 29th, '23. There was a typo on previous documentation, so please note that that meeting is scheduled for June 29th.

Next item on the agenda is Item 11, your Public Discussion. Please note the comments will be limited to three minutes per person. Does anyone wish to address the commission at this time? Okay. Well, I'm told Nicholas Clark (phonetic) --

MR. CLARK: That's me.

CHAIR AHERN: -- or Terry Thompson (phonetic).

MR. THOMPSON: I'm Terry. Pleasure to be here. So, my name is Terry. I'm with MPC Advanced Technology. We have a patent on Braille being on Lottery tickets. That's a market that hasn't been hit yet, right? These people have been underserved.

The Lottery in California has been in what, over 37 years. Not once have they had a chance to play. So, it's an opportunity for us to expand on that market, bringing you guys revenue, but also do the right thing to include these people since they've been excluded.

In this, we have something called the Clark Lottery Act, which Nick has put together with the Voice Assist. As far as giving you an example, as someone going to a store to go purchase a ticket, they have a caregiver or a handler with them. They're able to go in. They say their numbers. That person -- the numbers will be on the ticket as well, as well as the Braille. So, that person can verify with their care handler or their caregiver or handler to make sure they have the right numbers on the Lottery ticket, right?

With that being said, I think with listening to everything that's been going on here, it would be able to help you expand your revenue, help with the education piece of it as well. But also, when I look at it this way, it's

like we want everybody in California to have an opportunity to do this, right? We want to make sure that we give everyone the opportunity. Don't exclude anyone from this. We want to be able to hit certain maybe senior communities with this, different areas, people that will be able to do this that don't have that chance. What I will say is that in looking at this, look at the future. People that have diabetes that they can see now, but in the future, they may not be able to. They have to learn Braille. I actually know someone that had to do that. That person playing Lottery, honestly, they play it every day, every time they do it. And now they still have the opportunity to play if we're able to put this in place. They don't have a chance anymore because we don't have that opportunity right now.

So, I would ask that you guys would at least look at that opportunity. I know right now we're in conjunction with the California Civil Rights Office. They're on board. We're in talks with them, the ADA as well. We're actually in the process of building the machine itself with the ADA right now.

So, we've taken steps before we come here to make sure that we have certain things in play to let you see that we're very serious about this. We want to make sure that these folks have an opportunity to play the Lottery just like anyone else.

CHAIR AHERN: Okay, Terry.

MR. THOMPSON: Okay.

CHAIR AHERN: Thank you very much. And can you just state your name for the record as well?

MR. THOMPSON: Terry Thompson.

CHAIR AHERN: Thank you very much. Is there anyone else that wants to address the Commission at this time? Anyone else from the public? All right. Seeing none, we will move to Item Number 12, which is our adjournment.

And before we go, I'd like to, again, welcome Alex to our panel. Thank you very much for being a member of the Commission. And you have some words to say.

COMMISSIONER RASOULI: Thank you for having me.

CHAIR AHERN: Okay. I very much to have a full board, a full team. All right. Lottery team, thank you again for your great work and dedication. I appreciate everything you've done. Great presentation today. We're adjourned. (End of Recording)

(MEETING ADJOURNED)

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 This is to certify that I transcribed the foregoing pages 1 to 73 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 26th day of May 2023.



Victoria Brown
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