

CALIFORNIA STATE LOTTERY COMMISSION

Minutes – March 21, 2024

Sacramento, California

1. Call to Order

Chairman Gregory Ahern called the meeting of the California State Lottery Commission to order at 10:01 a.m.

2. Pledge of Allegiance

Chairman Ahern led the Pledge of Allegiance.

3. Roll Call

Chairman Ahern asked Elisa Topete to call the roll.

Commission Members Present:

Chairman Gregory Ahern

Vice Chair Keetha Mills

Commissioner Tiffani Alvidrez

Commissioner Alexandre Rasouli

California State Lottery staff and presenters:

Harjinder K. Shergill Chima, Director

Fernando Aceves, Chief Counsel

John Lowden, Deputy Director of Security and Law Enforcement

Erik Hornbaker, Manager of Facilities and Business Services

Sharon Allen, Deputy Director of Sales and Marketing

Jennifer Chan, Deputy Director of Information Technology Services

Elisa Topete, Assistant to the Commission

Rebecca Estrella, Recording Secretary

4. Consider Approval of the Agenda

Chairman Ahern asked if the Commissioners had any changes to today's agenda.

Commissioner Mills made the motion to approve the agenda and was seconded by Commissioner Rasouli. The agenda passed unanimously.

5. Approval of the Minutes

Chairman Ahern asked if there were any additions or corrections to the January 25, 2024, minutes. Commissioner Mills made the motion to approve the minutes of the January 25, 2024, Commission Meeting and was seconded by Commissioner Rasouli. The minutes passed unanimously.

6. Informational Items

a. Director's Comments

Director Chima stated that total Lottery sales as of March 9th are close to \$6.5 billion, which is right on track with last year and sales are 9% above goal. Scratchers[®] sales have now exceeded \$4.5 billion. Both multi-state games have offered eight jackpots over a billion dollars for California players, leading to over \$1.1 billion in sales so far through early March, therefore Powerball[®] and Mega Millions[®] are pacing well above goal. SuperLotto Plus[®] sales are 7% better than expected and the Daily Games as well as Hot Spot[®], are both very close to their sales goal for the year with almost \$300 million each.

Through February, the Lottery's contribution to education is at \$1.45 billion, which is 22% above goal. Director Chima provided information on the industry sales for the first half of the year. She also provided information on the Lottery's participation of Problem Gambling Awareness Month and stated that it was important for the Lottery to understand the impact of problem gambling and our commitment in promoting responsible play.

7. Consent Calendar

8. Action Items

a. Ratification of Contract for Security Guard Services (Lottery Regulation 8.6.6A)

John Lowden, Deputy Director of Security and Law Enforcement, stated that the item was being provided as part of the ratification process for a contract with Citiguard, Inc. The Director's approval of the contract with Citiguard, Inc. in advance of the March Commission meeting allowed Lottery staff sufficient time to facilitate the transition of continued security guard services. The proposed contract has a term of five years, with two one-year options to extend.

Commissioner Mills asked if this was a new vendor, how many security guards would be with the Lottery and if the process has been a seamless transition. Mr. Lowden responded that it is a new vendor and that there are approximately 80 security guards, statewide. Staff has worked with them prior to the transition and the Lottery is pleased with the answers from this company's management team relating to continual services, compensation and maintaining a high level of security.

Chairman Ahern was impressed that all of the security guard staff was given the opportunity to stay on with the new company and that only a few of them wanted another type of employment.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(a). No one came forward, so he proceeded to the motion.

Commissioner Mills made the motion to approve Action Item 8(a) and it was seconded by Commissioner Alvidrez. The motion passed unanimously.

b. Norcal Ticket Shredding Services

Erik Hornbaker, Manager of Facilities and Business Services requested Commission approval for a ratification of a new three-year contract with Viking Shred, LLC to provide Scratchers ticket shredding services at the Northern Distribution Center and four Northern California District Offices.

Commissioner Alvidrez asked for a brief summary on the history of the backlog, the need for shredding services, and an estimated timeline as to when there will be a complete elimination of the backlog. Mr. Hornbaker explained that during the COVID pandemic, there were supply-chain constraints. Therefore, staff stockpiled tickets a little bit longer in case there were printing supply-chain issues. This was done so that there would still be some products to push out to retailers, as long as the top prize was not paid out. Additionally, staff was not allowed to sell at that time, so there was a backlog. There was also a backlog due to a shredding contract expiring and the Lottery did not have the ability to add more funding to that particular contract or extend the time, so that also created a long-term backlog. When it was apparent that the supply-chain issues were not going to impact the printing and distribution of tickets, staff started to address that backlog.

Mr. Hornbaker stated that this is a three-year contract with two one-year options to extend, which also gives the Operations Team an opportunity to look at other permanent solutions, such as potentially purchasing its own industrial shredding equipment and doing the shredding onsite. Staff has also added approximately 30% year-over-year contingency to address any potential backlogs. Mr. Hornbaker said staff has already addressed the COVID backlog portion and they are close to finalizing the backlog for Northern California, which should be resolved by the end of March.

Chairman Ahern asked if this contract is only for ticket shredding and not for other documents. Mr. Hornbaker said that because of the volume, it is only for ticket shredding. Mr. Ahern asked if the Lottery Regulations require staff maintain these tickets for a specific length of time. Sharon Allen, Deputy Director of Sales and Marketing, stated that staff tries to sell through as much product as possible, however when there are top prizes that are sold and are no longer available, the tickets are then recalled, which is the reason they are shredded. Also, there are retailers that close down, so inventory has to be collected. Anything that is a partial pack cannot be sold.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(b). No one came forward, so he proceeded to the motion.

Commissioner Rasouli made the motion to approve Action Item 8(b) and was seconded by Commissioner Mills. The motion passed unanimously.

c. SoCal Ticket Shredding Services

Erik Hornbaker, Manager of Facilities and Business Services requested the Commission to approve a new three-year contract with Shred Source Inc. to provide Scratchers ticket shredding services at the Southern Distribution Center and five Southern California District Offices.

Commissioner Mills asked why there are two contracts instead of just one for the whole state. Mr. Hornbaker said the goal was to obtain one statewide contractor, however there was no vendor large enough to handle the statewide volume. For this reason, staff advertised the option to bid for Northern or Southern California or the entire state. This was why the Lottery ended up with two separate bidders and two separate awards. Ms. Mills asked if there was a significant pricing differential between the Northern and Southern California contracts. Mr. Hornbaker stated there was about a 7% difference, which wasn't significant. Commissioner Alvidrez asked how long the Lottery had gone without a shredding contract. Mr. Hornbaker answered that the Lottery had been without a contract for approximately 4½ months.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(c). No one came forward, so he proceeded to the motion.

Commissioner Mills made the motion to approve Action Item 8(c) and was seconded by Commissioner Rasouli. The motion passed unanimously.

d. Extension and Addition of Funds to the David&Goliath (D&G) Contract

Sharon Allen, Deputy Director of Sales and Marketing, requested Commission approval for a one-year extension and an increase in the expenditure authority of \$105 million for the D&G contract to continue services without interruption. The amendment will extend the term through August 18, 2025.

Commissioner Mills asked for information regarding the plan to make sure that staff will be able to go through the RFP process that is required of the Lottery in the appropriate amount of time, so that there is a new contract in place by the time this last extension expires. Ms. Allen said that staff is starting to put together the timeline with resources in place to get this accomplished. The Sales and Marketing staff are working closely with the Procurement, Legal, Internal Audits and Business Planning Units and the Finance Division and it is part of the Business Plan proposal for the next fiscal year.

Commissioner Alvidrez ask why the one-year extension is for \$105 million, which is a nearly 40% increase above the total contract amount for the five years. Because it feels significant, she asked if it was standard. Ms. Allen explained that last year's extension request was for \$129 million. When the initial five-year term and that expenditure authority was set, it was in 2018.

Ms. Allen reported that one major reason was that the Lottery had two years that were impacted significantly by the pandemic. During this time, the Lottery suspended advertising. There were two major campaigns that were paused. Jackpot Alerts were also paused. Thus, some years were underfunded. Additionally, the Lottery experienced multiple jackpots that hit at lower levels, so the Jackpot Alert Program was not activated. Consequently, that spending was not reflected. Finally, the media industry consumer landscape has changed from 2018 to now. The Lottery has had to ensure its messages are heard by our players and consumers. That means utilizing multiple streaming platforms, including digital and social. It is much more expensive to reach the same amount of people because they are all consuming media differently. Also, we are in the State of California, where media is very expensive, with Los Angeles and San Francisco being two of the top 10 markets in the U.S. Thus, even if the pandemic and some of these other things hadn't happened when the Lottery suspended advertising, we most likely would have been coming to the Commission and requesting an increase during that initial five-year term.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(d). No one came forward, so he proceeded to the motion.

Commissioner Mills made the motion to approve Action Item 8(d) and was seconded by Commissioner Rasouli. The motion passed unanimously.

e. Epicor Maintenance and Operations Contract Amendment

Jennifer Chan, Deputy Director of Information Technology Services, stated that the Lottery's Financial System contract with Epicor Software Corporation for continuing maintenance and operations support enhancements, and new functionality of Epicor version 10 system that was executed on July 1, 2022, is currently expected to run out of funds by April 2024. Staff is requesting Commission approval to add an additional \$250,000 in expenditure authority.

Commissioner Mills asked if the reason this contract is over is because some of the services were originally anticipated to be covered in another contract but got pushed into this one. Ms. Chan said the Epicor Project was under a different implementation contract with a project that had been going on for several years. The Lottery made a business decision that once all critical functionality was addressed, the non-critical functionality could be deferred, to be addressed in the Maintenance and Operations portion.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(e). No one came forward, so he proceeded to the motion.

Commissioner Alvidrez made the motion to approve Action Item 8(e) and was seconded by Commissioner Rasouli. The motion passed unanimously.

f. ServiceNow Software Licensing and Implementation

Jennifer Chan, Deputy Director of Information Technology Services, requested Commission approval to enter into a new agreement with Ahead, Inc. to renew its existing ServiceNow licensing, add additional licensing for asset management efforts, and implementation services. The total agreement amount is for a two-year term, beginning May 30, 2024.

Chairman Ahern asked if anyone from the audience had any questions on Action Item 8(f). No one came forward, so he proceeded to the motion.

Commissioner Mills made the motion to approve Action Item 8(f) and was seconded by Commissioner Rasouli. The motion passed unanimously.

9. Commissioner General Discussion

Chairman Ahern asked if the Commissioners had anything they would like to discuss. Chairman Ahern congratulated Director Chima on her award from the Women in California Politics Foundation.

10. Scheduling Next Meetings

The next Commission Meetings are tentatively scheduled for May 23, June 27, September 26, and November 21, 2024.

11. Public Discussion

For Public Discussion, Chairman Ahern sought public comments or questions. No one came forward so he proceeded with the next agenda item.

12. Adjournment

Meeting adjourned at 10:52 a.m.