

STATE OF CALIFORNIA
TRANSCRIPT OF PROCEEDINGS

CALIFORNIA STATE LOTTERY COMMISSION
COMMISSION MEETING

TIME: 10:00 a.m.
DATE: Thursday, May 23rd, 2024
PLACE: California State Lottery Headquarters
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Sacramento, California 95811

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A P P E A R A N C E S

California State Lottery Commission

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Commissioner

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Commissioner

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1 **Thursday, May 23rd, 2024**

2 **Sacramento, California**

3 **--oOo--**

4 **CHAIR AHERN:** All right, we'll call our Lottery
5 meeting to order. I'm going to start with the Pledge of
6 Allegiance, so if you're able, please stand and join me in
7 the Pledge of Allegiance.

8 *(The Pledge of Allegiance was recited.)*

9 **CHAIR AHERN:** All right, thank you. We'll move
10 on to Item #3; will the Secretary please call the roll?

11 **MS. TOPETE:** Commissioner Mills?

12 **COMMISSIONER MILLS:** Present.

13 **MS. TOPETE:** Commissioner Rasouli?

14 **COMMISSIONER RASOULI:** Present.

15 **MS. TOPETE:** Chairman Ahern?

16 **CHAIR AHERN:** Here. Thank you very much.
17 Commissioners, Item #4, does anyone want to suggest any
18 changes to today's agenda in any respect? Hearing none, do
19 I hear a motion to adopt the agenda?

20 **COMMISSIONER MILLS:** I actually have a comment. I
21 understand our colleague has an earlier flight, so I'm
22 wondering if we need to re-order and do Action Items while
23 we're all here because if we lose our colleague, we're not
24 going to have quorum.

25 **DIRECTOR CHIMA:** Oh, yeah.

1 **COMMISSIONER MILLS:** Wondering --
2 **DIRECTOR CHIMA:** We can do that if you'd like.
3 **CHAIR AHERN:** What time do you want to get out of
4 here? Okay. All right. We'll change the order of the
5 agendas and go with Action Items first, uh-huh? So, we
6 still need a motion.
7 **COMMISSIONER MILLS:** I'll move to approve the
8 amended agenda.
9 **CHAIR AHERN:** Okay. And do we have the second?
10 **COMMISSIONER RASOULI:** Second.
11 **CHAIR AHERN:** A motion and a second; will the
12 Secretary please call the roll?
13 **MS. TOPETE:** Commissioner Mills?
14 **COMMISSIONER MILLS:** Yes.
15 **MS. TOPETE:** Commissioner Rasouli?
16 **COMMISSIONER RASOULI:** Yes.
17 **MS. TOPETE:** Chairman Ahern?
18 **CHAIR AHERN:** Yes. Okay, Item #5, Approval of
19 the Minutes. Are there any corrections to the minutes?
20 Hearing none, do I hear a motion to approve the minutes for
21 the March 21st, 2024, Commission Meeting?
22 **COMMISSIONER MILLS:** I'll move to approve.
23 **COMMISSIONER RASOULI:** Second.
24 **CHAIR AHERN:** We've got a motion and a second;
25 will the Secretary please call the roll?

1 **MS. TOPETE:** Commissioner Mills?
2 **COMMISSIONER MILLS:** Yes.
3 **MS. TOPETE:** Mr. Rasouli?
4 **COMMISSIONER RASOULI:** Yes.
5 **MS. TOPETE:** Chairman Ahern?
6 **CHAIR AHERN:** Yes. All right. We'll pause on
7 Item #6. Number 7, do Consent Calendar. There are no items
8 on the Consent Calendar, so we'll proceed to Action Items.
9 Moving on to Item #8a, which is Ratification of the Public
10 Website Contract Termination with Jennifer Chan.
11 **DEPUTY DIRECTOR CHAN:** Good morning,
12 Commissioners.
13 **CHAIR AHERN:** Good morning.
14 **COMMISSIONER MILLS:** Hi.
15 **DEPUTY DIRECTOR CHAN:** Item #8a is a request for
16 the Commission to ratify the termination of Contract Number
17 50026 with ICF Resources, LLC, also known as ICF. ICF
18 provides the Lottery with consulting services to maintain
19 and support our public website, also known as PWS. At the
20 September Commission Meeting last year, and after a
21 competitive bidding process, the Commission approved a new
22 contract to be awarded to ICF for our public website
23 services. Although ICF had been the incumbent, the new
24 contract included improved terms and conditions and
25 increased levels of staffing, which required a transition

1 period from the old contract to the new contract. This new
2 contract was executed on January 1st of this year, and the
3 transition from the old contract to the new contract took a
4 period of 90 days, which was completed on March 31st of this
5 year. The contract term date for the old contract, however,
6 ends on September 30th of this year. As a result, once the
7 Lottery transitioned to the new contracts, the old contract
8 was immediately terminated at the conclusion of the
9 transition to avoid any conflicts between the terms and
10 conditions of those two contracts. The Lottery Director had
11 the authority per Lottery regulations to approve the
12 termination of the contract prior to a Commission Meeting.
13 Therefore, this was terminated, and the Lottery recommends
14 that the Commission ratify the termination of Contract
15 Number 50026, with ICF as the new contract, 101007, has been
16 fully executed, and the transition has been completed, and I
17 can answer any questions you may have.

18 **CHAIR AHERN:** All right, do any of our
19 Commissioners have any questions regarding Action Item #8a?
20 Hearing none, does any member of the public want to address
21 the Commission at this time regarding Action Item #8a?
22 None? So, do I hear a motion to approve Action Item #8a,
23 Ratification of Public Website Contract Termination?

24 **COMMISSIONER RASOULI:** I make a motion.

25 **CHAIR AHERN:** We have a motion, and is there a

1 second?

2 **COMMISSIONER MILLS:** I'll second.

3 **CHAIR AHERN:** Motion and a second; will the
4 Secretary please call the roll?

5 **MS. TOPETE:** Commissioner Mills?

6 **COMMISSIONER MILLS:** Yes.

7 **MS. TOPETE:** Commissioner Rasouli?

8 **COMMISSIONER RASOULI:** Yes.

9 **MS. TOPETE:** Chairman Ahern?

10 **CHAIR AHERN:** Yes. All right, motion passes.

11 We'll move on to Action Item #8b; is there a Jennifer Chan
12 here? Okay, Microsoft Unified Enterprise Performance Level
13 Support.

14 **DEPUTY DIRECTOR CHAN:** Item #8b is a request for
15 the Commission's approval to renew our Microsoft Unified
16 Enterprise Performance Level Support Agreement annually for
17 a total of three years. As you may be aware, over the past
18 three years, I have come to the Commission annually to seek
19 approval for the Microsoft agreement. The Lottery is a
20 Microsoft shop; we rely heavily on their products and
21 services that only Microsoft can provide. While our IT shop
22 provides first-level troubleshooting, configuration, and
23 minimal support tasks, the Support Contract allows us to
24 leverage Microsoft for increased and then complex
25 troubleshooting; access to product services; and

1 installation of new products, as well asks us to specialize
2 in dedicated Microsoft expertise and support. This is an
3 effort to be more proactive and more predictable and budget-
4 friendly, as this is a request for the approval of a total
5 of three years. That said, the Support Services will be re-
6 bid annually to ensure that we are receiving the lowest
7 costs, and also to provide us with the flexibility to be
8 able to address shifting initiatives or shifting needs as
9 new needs arise or other needs are no longer needed. A 10
10 percent overall contingency has also been added to take into
11 account any price fluctuations throughout the three-year
12 term. If these costs rise above the annual not-to-exceed
13 costs and the three-year contingency has been fully
14 expended, Commission approval will be sought again at that
15 point in time. Therefore, the Lottery recommends the
16 Commission approve the phased procurement approach for the
17 Microsoft Unified Support. The approval would expire in
18 Fiscal Year '26-'27; specifically, on June 30th of 2027, and
19 the maximum authorized expenditures for these annual
20 renewals is \$2,887,775 and I can answer any questions you
21 may have.

22 **CHAIR AHERN:** All right. Commissioners, any
23 questions? Well, thank you very much for the briefing you
24 gave us earlier in the week; appreciate that. Does any
25 member of the public want to address the Commission at this

1 time regarding Action Item #8b? Seeing none, do I hear a
2 motion to approve Action Item #8b, Microsoft Unified
3 Enterprise Performance Level Support?

4 **COMMISSIONER MILLS:** I'll move to approve.

5 **CHAIR AHERN:** We've got a motion.

6 **COMMISSIONER RASOULI:** Second.

7 **CHAIR AHERN:** We've got a second. Will the
8 Secretary please call the roll?

9 **MS. TOPETE:** Commissioner Mills?

10 **COMMISSIONER MILLS:** Yes.

11 **MS. TOPETE:** Commissioner Rasouli?

12 **COMMISSIONER RASOULI:** Yes.

13 **MS. TOPETE:** Chairman Ahern?

14 **CHAIR AHERN:** Yes.

15 **DEPUTY DIRECTOR CHAN:** Thank you.

16 **CHAIR AHERN:** All right, Jennifer, thank you.
17 Moving on to Sharon Allen, who is up and ready.

18 **DEPUTY DIRECTOR ALLEN:** Shaking it up this
19 morning, different order.

20 **CHAIR AHERN:** Scratchers Core Game Profile
21 Templates, Item #8c.

22 **DEPUTY DIRECTOR ALLEN:** All right.

23 **CHAIR AHERN:** We're on.

24 **DEPUTY DIRECTOR ALLEN:** The Lottery utilizes core
25 templates in the creation of Scratchers games. These

1 templates define the overall financial structure of each
2 game, including information such as potential revenue, prize
3 tiers, odds, and prize payout. Per Lottery regulations, the
4 new core templates require Commission approval. Combined
5 with assorted designs and themes, these templates play a key
6 role in differentiating Scratchers games and providing
7 novelty within the portfolio. Today the Lottery is
8 requesting approval for these new Scratchers core templates
9 to help drive sales and assist the Lottery's financial
10 objective in consistently exceeding \$2 billion in annual
11 contributions to public education. The proposed new
12 templates include new \$25 and \$40 games that will initially
13 be utilized for a pair of special events and new \$30 games
14 to add variety to the existing portfolio. Player trends
15 within the Lottery industry and California continue to shift
16 towards higher-priced games, with California's preferred
17 game moving to \$20, providing an opportunity to add new \$25
18 and \$40 prize categories, as well as increased variety
19 within the \$30 category. The new Scratchers categories
20 align with consumer interest while leveraging unique
21 opportunities with the Calendar Year 2025. The Lottery
22 launched its first \$20 New Year's game to align with the
23 year 2020, creating a successful and popular player favorite
24 that remains a key component of the annual holiday game
25 suite. The 2025 creates the ideal timing to introduce a

1 special \$25 New Year's game. Next year is also the
2 Lottery's 40th anniversary, providing an opportunity to
3 launch thematic games that celebrate 40 years of play,
4 including the Lottery's first \$40 Scratchers game to
5 coincide with the anniversary. This game was tested in
6 research to high player appeal and interest across loyal and
7 casual players. The proposed \$25 and \$40 templates also
8 include additional options that could be used in a potential
9 future game. The Lottery is also proposing additional
10 templates that will expand its selection of \$30 games to
11 include popular play styles that provide an exciting player
12 experience, such as games with more lower-tier cash prizes.
13 All of the new proposed templates feature varying price
14 levels and were developed in close collaboration between the
15 Lottery's Scratchers' vendors and the Lottery's product team
16 to maximize dollars to education while providing an engaging
17 player experience. Lottery staff recommends the Commission
18 approve these 18 new Scratchers core game profile templates,
19 and I'd be happy to answer any questions.

20 **CHAIR AHERN:** All right. Commissioners, do we
21 have any questions?

22 **COMMISSIONER MILLS:** I do.

23 **CHAIR AHERN:** Go ahead.

24 **COMMISSIONER MILLS:** Thank you, Sharon, for that
25 presentation. Can you talk a little bit about how you all

1 determined, kind of, reasonableness of the templates? Do
2 you use, like, outside experts, best practices, do you
3 compare to what other states are doing?

4 **DEPUTY DIRECTOR ALLEN:** We look across the
5 Lottery industry and see what other jurisdictions are doing,
6 as well as work closely with our three Scratchers vendors,
7 which all have representatives in the audience today, and
8 give us a sense of what's performing well in the industry,
9 what other jurisdictions have had success with, as well as
10 our own consumer research and player research testing the
11 appeal and spending exercises, to make sure that each of
12 these templates and price structures is optimized to deliver
13 a player experience that's engaging and exciting, as well as
14 maximizing the financial contributions to education.

15 **COMMISSIONER MILLS:** Other than the two price
16 points that you talked to us about, is there anything else
17 unusual or out of the ordinary or maybe a different kind of
18 strategy we decided to take when we did those comparisons?

19 **DEPUTY DIRECTOR ALLEN:** Adding the new price
20 categories and then adding more variety within the \$30, it's
21 been about -- we introduced \$30 games at the 30th anniversary
22 and at that time did not have very many templates. We've
23 seen in our other price levels that players are looking for
24 different types of experiences. It could be a large top
25 prize or more smaller prizes that can then give them a more

1 frequent opportunity to win. So, these all provide
2 different and a variety of experiences that can fit within
3 our overall plan to meet the needs of the different types of
4 players and what they like to play.

5 **COMMISSIONER MILLS:** Okay. And other than those
6 things that we've talked about, everything else is kind of
7 in alignment with --

8 **DEPUTY DIRECTOR ALLEN:** Uh-huh.

9 **COMMISSIONER MILLS:** -- your norm?

10 **DEPUTY DIRECTOR ALLEN:** Yes.

11 **COMMISSIONER MILLS:** Thank you.

12 **DEPUTY DIRECTOR ALLEN:** Okay.

13 **CHAIR AHERN:** And other states have higher price
14 points than we are looking at right now, correct?

15 **DEPUTY DIRECTOR ALLEN:** Many states have \$50 and
16 \$100 games. Not as many have \$25 and \$40. They have done
17 it, but we are taking the opportunity of these two moments
18 of time to capitalize on the 2025 anniversary and calendar
19 year.

20 **CHAIR AHERN:** Okay. All right, thank you. Any
21 other questions? Okay. Does any member of the public want
22 to address the Commission at this time regarding Action Item
23 #8c? Seeing none, do I have a motion to approve Action Item
24 #8c, Scratchers Core Game Profile Templates?

25 **COMMISSIONER RASOULI:** Motion.

1 **CHAIR AHERN:** We have a motion, and is there a
2 second?
3 **COMMISSIONER MILLS:** Second.
4 **CHAIR AHERN:** Motion and a second. Will the
5 Secretary please call the roll?
6 **MS. TOPETE:** Commissioner Mills?
7 **COMMISSIONER MILLS:** Yes.
8 **MS. TOPETE:** Commissioner Rasouli?
9 **COMMISSIONER RASOULI:** Yes.
10 **MS. TOPETE:** Chairman Ahern?
11 **CHAIR AHERN:** Yes. And just for the record, you
12 now beat Jim at what Jim's going to tell us.
13 **DEPUTY DIRECTOR ALLEN:** Oh, it's true; I know.
14 As I was talking, I was, like, oh, shoot. Thank you very
15 much.
16 **CHAIR AHERN:** I think now we're even. Okay. All
17 right. We'll go back to our Informational Items, and we'll
18 start with #6, the next page. Okay. Our new Director. All
19 right, Director Harjinder Chima.
20 **DIRECTOR CHIMA:** Yes. Good morning. There we
21 go. Okay. Good morning, Commissioners. I'm going to keep
22 this actually very short and sweet today for you, so that
23 you have ample time to hear about our developing Business
24 Plan and Draft Budget for next year. So, I wanted to start
25 off with some very exciting news, and that is, as of right

1 now, we are at almost \$1.9 billion for our contributions to
2 Education. This is significant, because you may remember
3 from last year at about this time, we were not projecting
4 these types of numbers for this year, and so we're very
5 pleased to share that we are significantly higher than we
6 had expected, at about 25 percent above what we had
7 predicted, and we're actually on track this year to once
8 again give over \$2 billion to Public Education. This will
9 be our third year in a row that we've met that goal. You'll
10 hear a little more information about this, about our fiscal
11 projections for next year from Nick, as he talks about our
12 Draft Budget. On the Sales side, I'm very pleased to report
13 that we have exceeded \$8 billion. This is the earliest that
14 we've ever reached this milestone in our 39-year history.
15 Scratchers sales are on track with our annual goal, and it's
16 even edging out last year by about two percent, so we're
17 doing fantastic. All of our Draw games combined have
18 brought in a record \$2.4 billion, and that is thanks in
19 large part to a huge number of billion-dollar-plus jackpots;
20 we've had 13 so far this year, and they've also helped bring
21 up our numbers for SuperLotto Plus. The Daily Games
22 category didn't soften as much as we'd expected, and so
23 we're still above goal for this year. And our Hot Spot
24 sales have grown over the past year with the prize
25 optimizations that we made that we talked about in October,

1 but players haven't quite adapted as rapidly as we had
2 originally predicted, but we're hoping that they will catch
3 on. And that is actually my report for you today unless you
4 have any questions.

5 **CHAIR AHERN:** I'm just very impressed that
6 another year, even with the economy as it has been, we're
7 looking at \$2 billion. Remarkable work by you and all your
8 staff, so thank you.

9 **DIRECTOR CHIMA:** Thank you. We are very
10 pleased with that, and that's from everyone out in Field
11 Sales to people here working as analysts, all the way up to
12 the management team, so very grateful that we are able to do
13 that once again this year.

14 **CHAIR AHERN:** All right, thank you.

15 **DIRECTOR CHIMA:** Thank you.

16 **CHAIR AHERN:** All right. Move on to 6b, which is
17 Master Qualitative Research Agreements Presentation by Jim.

18 **DEPUTY DIRECTOR HASEGAWA:** Thank you very much.
19 So, this informational item is about seven service
20 agreements for qualitative research services. Although
21 these procurements do not require Commission approval, staff
22 feel that in the spirit of transparency, it's appropriate to
23 inform the Commission about the results since this is a new
24 process, and two vendors were awarded more than one
25 contract. Commission approval is not required since every

1 individual contract is valued below \$250,000, and each one
2 has an independent scope of work, as well as separate
3 pricing, and were evaluated and awarded independently. So,
4 in terms of some background, qualitative research is
5 routinely used by the Lottery for exploring a new issue, for
6 gaining deeper insights into motivations, and also in
7 understanding the reasons why concepts may be appealing or
8 not. Common qualitative research methods include focus
9 groups and one-on-one interviews. These sessions are
10 conducted by trained research specialists who can get people
11 to go beyond the superficial responses during the one-to-
12 two-hour sessions. Over the past several years, we have
13 conducted an average of about four qualitative projects each
14 year, with a typical project having a cost under \$50,000.
15 In the past, each project was individually procured once
16 this type of research was needed. This results in time
17 spent by staff in Business Planning and Research, which is
18 my group, Operations, and the Legal Office to handle each of
19 these procurements. The length of time to conduct the
20 procurement, select the winning vendor, and develop, route,
21 and sign these service agreements is about five months.
22 This means that the time to get the vendor on board to start
23 a project actually takes longer than the time to do the
24 actual qualitative research project. So, one of the
25 problems with this timeline is that it often does not align

1 with the turnaround time required by our internal customer,
2 such as Sales and Marketing. It doesn't really meet their
3 needs, and it doesn't help them to make a timely business
4 decision. So, a new way to procure these services was
5 needed that would reduce that overall timeline and deliver
6 actionable insights in a timely manner. So, working with
7 the Procurement Services and Support, and Operations, the
8 Legal Office, a solution was created that would involve
9 conducting a formal Request for Proposal, or RFP, to deliver
10 multiple contracts for handling the various different types
11 of qualitative research, and this contract would be for a
12 multiple-year period. This would allow the Lottery to have
13 vendors on hand and ready to start an assignment when the
14 need arose rather than having to wait for a procurement
15 process, and this means that we'll be able to deliver
16 results in potentially half the time that it currently
17 takes. This method would also have the potential for saving
18 the Lottery costs by combining projects, so that opening
19 vendor would get multiple projects out of it, and it would
20 reduce staff hours, because before we were doing individual
21 procurements for each project. There are other multiple
22 benefits for having separate, multiple agreements in this
23 one RFP. There is a need to develop a separate scope of
24 work, minimum requirements, and evaluation criteria for each
25 type of contract since there are specific needs for prior

1 experience and expertise in handling product research
2 compared to advertising research, as well as for conducting
3 the qualitative sessions in Spanish compared to research
4 conducted in English. This method allowed the Lottery to
5 have a separate evaluation for each of the five types of
6 qualitative research since vendors could be specialists in
7 one type of research or have better experience in one
8 specific type of research. And, as I kind of mentioned,
9 this process could create more competition and therefore
10 lower costs. There were five separate competitions where a
11 vendor could submit a proposal. Two were in the area of
12 product concept research, with one where it was conducted in
13 English and another where it was conducted in Spanish, and
14 we also have two competitions in the advertising concept
15 research arena, again, one in English and one in Spanish.
16 And finally, one for exploratory research. This is the type
17 of research that typically requires a little bit different
18 types of questions and exercises because of its very broad
19 objectives and it's usually, the first time we're broaching
20 either a subject or this specific group of respondents. So,
21 in total, through this procurement, 15 different businesses
22 submitted proposals, so either one or multiple potential
23 contracts. So, the objective to create more competition
24 definitely was achieved with getting that many different
25 vendors. I want to note that we had four of the bidders

1 only submit proposals in maybe just one or two of the
2 contract categories.

3 **CHAIR AHERN:** So, you say one or two of A through
4 E?

5 **DEPUTY DIRECTOR HASEGAWA:** Yes.

6 **CHAIR AHERN:** Okay.

7 **DEPUTY DIRECTOR HASEGAWA:** Yes, so we had four
8 vendors; they picked and chose based on maybe their
9 expertise in that area. We had some vendors that, as it
10 says up there, that bid only for the English language
11 contracts and all. And it also should be noted that seven
12 out of the 15 proposers were confirmed as certified small
13 businesses, so we're dealing with not just some large
14 companies but also much smaller firms as well, so it really
15 did create a really good competition. For the two
16 advertising concept research areas, both a primary contract
17 and a secondary contract were awarded due to the turnaround
18 times typically needed for these types of projects. The
19 table that's before you shows the contract values based on
20 the estimated number of projects we may need and the vendor-
21 submitted cost sheet. Now, the vendor Dialogue did win
22 three contracts, but that was because of their aggressive
23 pricing. For all three of the evaluations where they won
24 the contract, a different company actually had the highest
25 score in the rated evaluation portion. However, in the cost

1 proposal, Dialogue had significantly better pricing. For
2 example, in one of the contracts, their costs were 28
3 percent lower, and in another contract, Dialogue's costs
4 were 64 percent lower than the top-rated vendor. This type
5 of difference was not anticipated, so we didn't think we
6 would necessarily have one contractor win so many of the
7 awards, but the Lottery is benefiting because of the pricing
8 that they submitted that I just described.

9 **CHAIR AHERN:** And Jim, did your selection board,
10 was it consistent through A through E, or did different
11 people sit on different evaluations?

12 **DEPUTY DIRECTOR HASEGAWA:** It was the same
13 group of people. We had a group that did the rated
14 evaluations and separate individuals who evaluated the cost
15 proposals.

16 **CHAIR AHERN:** Okay.

17 **DEPUTY DIRECTOR HASEGAWA:** And I do want to
18 note that the company Element 54, for the research conducted
19 in Spanish, though they are the winner, they submitted a
20 joint proposal, so it was Element 54 along with Cultural
21 Edge who would be actually conducting those sessions. So,
22 all seven agreements are currently routing for final
23 approvals and signatures internally and then ultimately with
24 the vendors with an estimated contract start date of mid-
25 June. Now, the base term for these contracts is two years,

1 and there are two additional one-year extension options.
2 Now, Business Planning will monitor and evaluate during this
3 base term the benefits and the value of these long-term
4 contracts and weigh them with the lessons learned from the
5 recent solicitation and the evaluation process, costs that
6 are occurring in the industry, and our changing research
7 needs, and that would let us determine what's the best value
8 for the Lottery in the future. Depending on that
9 evaluation, we could use the optional extensions; we could
10 do another solicitation like this one; we could go back to
11 the more ad hoc, one-project-at-a-time approach; or we could
12 look for yet another new alternative solution. Now, if we
13 do utilize the term extensions, one or more of these
14 contracts would be brought to the Commission for approval,
15 since, at that time, the contract value would increase to an
16 amount above \$250,000. So, again, I just wanted to, in all
17 transparency, talk about this new process. We think it has
18 many great advantages for the Lottery. We ended up with a
19 great value and surprisingly a contractor winning so many of
20 the different agreements, but it looks, at least at the
21 start of this, very promising. So, I can answer any
22 questions at this time.

23 **CHAIR AHERN:** Any questions?

24 **COMMISSIONER MILLS:** I do have a question.

25 **CHAIR AHERN:** Okay.

1 **COMMISSIONER MILLS:** Thanks, Jim, for the
2 presentation. I very much appreciate the transparency and
3 then the creativity that has gone into solving the problem
4 that was identified. My question is, in the contracts, are
5 the projects pre-defined?

6 **DEPUTY DIRECTOR HASEGAWA:** The actual projects
7 aren't in terms of what specific specifications, because
8 sometimes we might need certain types of players or
9 frequency of play, but we gave them examples.

10 **COMMISSIONER MILLS:** Okay.

11 **DEPUTY DIRECTOR HASEGAWA:** The contracts do
12 define the scope, meaning the types of project assignments.
13 It's not maybe who would be in the group, but what would be
14 the topics?

15 **COMMISSIONER MILLS:** Okay. So, you've got kind of
16 the types of projects that have been kind of pre-assigned
17 and included in the contracts. And then one of the things I
18 think I heard you say is that one of the problems is, like,
19 the timeliness, right, when things come up, and you need to
20 research it right away or sooner than seven, eight months
21 down the road?

22 **DEPUTY DIRECTOR HASEGAWA:** Uh-huh.

23 **COMMISSIONER MILLS:** So, if those types of things
24 come up that were maybe not anticipated when these contracts
25 were written, is there flexibility in the contracts either

1 to shift or change projects or add projects that might come
2 up real time?

3 **DEPUTY DIRECTOR HASEGAWA:** The timing of when
4 the projects are, literally, since they're already, like,
5 essentially awarded that contract is we would just start
6 picking up the phone and talking to the vendor and working
7 with their schedule to begin work immediately. So, the
8 contracts don't specify exactly when each of these
9 qualitative research assignments would be done. So, that's
10 what gives us the great flexibility, because oftentimes, it
11 might be that, let's say, for example, in advertising
12 concepts, you know, we don't test it until not only are
13 there concepts developed but they have to be fully thought
14 through and vetted by the Marketing Team, and so forth. So,
15 that's why we need the flexibility because if they say,
16 like, well, we need some revisions, we wouldn't be able to
17 test next week. And so, that's why this type of contract is
18 much more ideal for that type of setting.

19 **COMMISSIONER MILLS:** Okay. So, you've got the
20 flexibility that you need?

21 **DEPUTY DIRECTOR HASEGAWA:** Yes.

22 **COMMISSIONER MILLS:** And then, on the ones where
23 there's a couple of vendors chosen for the category, how
24 will you decide which vendor to use?

25 **DEPUTY DIRECTOR HASEGAWA:** For the primary and

1 secondary? Yes, in that case, it does deal with
2 availability. The secondary contractor is guaranteed to
3 have one assignment per year.

4 **COMMISSIONER MILLS:** Okay.

5 **DEPUTY DIRECTOR HASEGAWA:** So, they know that
6 even though they're secondary, they are going to have
7 business. The primary one would get more, but oftentimes,
8 if we're going to be available, and we really need the
9 results, say, the first week in July, and they've already
10 gotten an assignment from another customer, client, for that
11 same period, we might then see if the secondary contractor
12 is available during that time, and then we'd work with them.

13 **COMMISSIONER MILLS:** Okay.

14 **DEPUTY DIRECTOR HASEGAWA:** So, it'll be very
15 clear in terms of, it's more like availability and so forth
16 --

17 **COMMISSIONER MILLS:** Yes, okay.

18 **DEPUTY DIRECTOR HASEGAWA:** -- that would
19 determine between the primary and the secondary.

20 **COMMISSIONER MILLS:** And it looks like the
21 advertising concept research was the only one that -- or no,
22 one is -- hold on.

23 **DEPUTY DIRECTOR HASEGAWA:** Yes, it's the only
24 one that has primary and secondary.

25 **COMMISSIONER MILLS:** Yes, but that's just the

1 concept research is the only one that you felt like you
2 needed secondary for.

3 **DEPUTY DIRECTOR HASEGAWA:** Yes, and the reason
4 is kind of what I said, is that it goes through so many
5 different processes and that we need the most flexibility,
6 and in some cases, the most timeliness. Product researchers
7 usually can follow a timeline a little bit easier, and
8 there's less reviews, and there's less need, oftentimes, to
9 maybe revise or modify the concepts that we'll be testing.

10 **COMMISSIONER MILLS:** Okay, thank you. That was
11 super-interesting. I appreciate that learning opportunity.
12 Thank you.

13 **DEPUTY DIRECTOR HASEGAWA:** Uh-huh.

14 **CHAIR AHERN:** Any other questions? Okay, thank
15 you very much, Jim. I think we're moving on to Item #6d.
16 It will be Nick with the Draft Fiscal Year 2024-25.

17 **DEPUTY DIRECTOR BUCHEN:** Item #6c, 6c.

18 **CHAIR AHERN:** Item #6c? Oh, we have to go to Jim
19 again. Is there a Jim here?

20 **DEPUTY DIRECTOR HASEGAWA:** I think it's Sharon
21 mentioned something in her presentation, so I won't -- we
22 don't need to spend the time with me again. But I do have
23 more than just the 40th anniversary to talk about.

24 **CHAIR AHERN:** Thank you for the direction here.

25 **DEPUTY DIRECTOR HASEGAWA:** All right.

1 **CHAIR AHERN:** Nick will be ready, though.

2 **DEPUTY DIRECTOR HASEGAWA:** He's on deck. Good
3 morning, Mr. Chair, Commissioners. It's my honor to present
4 the Draft Business Plan for the upcoming fiscal year to you.
5 So, with the Plan being presented as an informational item
6 this month, the Commissioners will have time before next
7 month's meeting to ask questions, to request additional
8 information, and/or provide feedback. At the June meeting,
9 the full plan will be formally brought to you as a voting
10 item. Today's presentation will spend a significant amount
11 of time on the key insights from analyzing our business that
12 led to the objectives and strategies for the Fiscal Year
13 2024-25 plan. On the other hand, the tactics to support
14 those objectives and strategies represented right now at a
15 high level. At the June meeting, more details about the
16 tactics will be presented, as many will have been finalized
17 between now and that period. And today's presentation will
18 also include the five business objectives for the Plan.
19 These will enable future growth in the Lottery's
20 contributions to public education.

21 But first, let's look at where we stand from a
22 Sales standpoint. So, the current year will very likely set
23 another record for sales. As you can see, sales over the
24 last four fiscal years have far exceeded sales before the
25 pandemic. We'll turn to playership now. So, this fiscal

1 year and last fiscal year, playership levels have been
2 statistically higher than the levels seen in earlier years.
3 So, the boxes around the numbers mean that they're
4 statistically significantly different, lower in this case,
5 than the current year or 2023-24. The large jackpots that
6 we keep talking about are likely to be one of the
7 contributing factors to the playership, and 68 percent, just
8 to give it a little more context, that equates to about 21
9 million California Lottery players. In terms of Scratchers
10 sales, this chart displays average weekly Scratchers sales
11 in each quarter from January of 2019 through the first three
12 quarters of the current fiscal year. Though sales did
13 decline with the onset of the pandemic, but they began to
14 rebound pretty quickly by that summer, and starting in 2021,
15 sales began to really soar, peaking in the spring of 2021.
16 During this time, as we've talked about in prior years, we
17 believe sales benefited from people wanting to enjoy a
18 little fun, a little leisure, yet were either unable or
19 uncomfortable doing some of their past pursuits. With this
20 additional discretionary money, some consumers spent some of
21 this additional money on Lottery. However, by the spring of
22 2022, sales began to decline as people were now comfortable
23 returning to the other fun and leisure activities. For
24 example, "revenge travel" was a term coined in the press, as
25 consumers across America traveled in record numbers to make

1 up for the vacations that didn't occur the previous couple
2 of years. Now, in the current year, sales have stabilized,
3 with some of the quarters experiencing gains over the same
4 quarter but the prior year; however, the impact from rising
5 prices appears to have also influenced sales, because since
6 February of this year, weekly sales are often below sales
7 from the same week but in 2023, and this softening of sales
8 was a bit stronger beginning in April. And so, that's
9 something we're keeping a keen eye on to see if a trend is
10 developing, or if it's going to return to previous levels.
11 This sales pattern that we've been showing is not just
12 common to California, coming into the pandemic and then
13 bouncing out of the pandemic. Now, I will say that many
14 U.S. jurisdictions have gone to higher price points for
15 boosting sales as things have softened across the U.S. To
16 give you an example, in calendar year 2023, there were 22
17 U.S. jurisdictions that offered a Scratchers game at \$50 or
18 higher.

19 **CHAIR AHERN:** I'm sorry; how many?

20 **DEPUTY DIRECTOR HASEGAWA:** Twenty-two.

21 **CHAIR AHERN:** Twenty-two.

22 **DEPUTY DIRECTOR HASEGAWA:** Now, this was up
23 from 13 jurisdictions which offered such a game in 2022, so
24 as you can see, to try and improve their sales and bottom
25 line, states are going to higher and higher price points at

1 the \$50 and \$100 level. Our last new price-point launch was
2 back in 2015 for our 30th anniversary, and it proved so
3 successful that the \$30 game was soon brought back on a
4 continuous basis. So, turning to Hot Spot, Hot Spot was
5 mentioned in the Director's Sales Update, it has seen modest
6 growth during the current fiscal year. For Daily Games,
7 sales there also got a boost after the initial months of the
8 pandemic, and what happened in this instance is that some
9 players of our major games like Powerball, Mega Millions,
10 and Scratchers, they started playing some of the Daily
11 Games. However, over the past few years, Daily Games sales
12 have slightly softened, but again, are still above pre-
13 pandemic levels. And turning to the big driver, our Jackpot
14 game sales, these include the two Multi-State games as well
15 as our own in-state SuperLotto Plus game. They are enjoying
16 another spectacular year of strong performances fueled by
17 the many big jackpots in Mega Millions and Powerball, and as
18 mentioned earlier, the current fiscal year has experienced
19 13 draws where the jackpot was a billion dollars or higher,
20 and this number is even higher than what we saw last fiscal
21 year.

22 But with all the talk about the big jackpots, I
23 want to do a deeper dive into some of the factors occurring
24 over the past couple of years which have led to these more
25 frequent big jackpots, and first, let's talk about the link

1 between higher interest rates and these games. The chart
2 before you talks about the Federal Reserve and their drive
3 to increase interest rates as a means of fighting inflation.
4 That started in March of 2022, and periodic rate hikes
5 occurred, not at every meeting but pretty continuously
6 through July 2023, and the Fed has been holding rates steady
7 since then. The higher interest rates lead to what are
8 called higher annuity factors, and these higher annuity
9 factors result in us being able to take considerably fewer
10 sales dollars to fund the jackpots. So, let me give you
11 some examples from the table. So, over four years ago, when
12 Mega Millions experienced its first billion-dollar jackpot,
13 that was before the Federal Reserve began its string of rate
14 hikes. At that time, the nation's game of Mega Millions,
15 not just our contribution of sales, nationally, it needed a
16 little over \$2 billion in sales over that sequence to fund a
17 billion-dollar jackpot, and that's because the annuity
18 factor back then was 1.3 because of lower rates. In
19 comparison, after the last rate hike in the summer of 2023,
20 the annuity factor was above 1.9, and as a result, the Mega
21 Millions national game only needed less than \$1.4 billion in
22 sales to fund a one-billion dollar jackpot. So, that's one
23 reason why we see more of them. Our money stretches
24 further, essentially. Now, another result of less money
25 being needed to fund the jackpot is that the jackpot grows

1 more quickly. While it took 37 rolls to reach \$1 billion
2 back in 2020-2021, the three sequences over the past couple
3 of years took between 25 and 30 rolls each because of that
4 yet higher annuity factor.

5 **CHAIR AHERN:** All right. So, now I got it. When
6 you were giving us the briefing, I pretended to understand.
7 Now I'm a little bit closer, right? So, because we take 20
8 years to pay off the ticket --

9 **DEPUTY DIRECTOR HASEGAWA:** Well, yeah
10 (inaudible).

11 **CHAIR AHERN:** -- and we're getting more money
12 back on our investments, it costs us less money. Okay.

13 **DEPUTY DIRECTOR HASEGAWA:** To fund a billion
14 dollars, exactly.

15 **CHAIR AHERN:** So that's giving you the
16 (inaudible) earlier. Now I got it.

17 **DEPUTY DIRECTOR HASEGAWA:** Okay. In addition
18 to the higher interest rates fueling jackpots, there's
19 another factor that contributed to the record number of big
20 jackpots over the past couple of years, and this factor is
21 very fortunate luck in terms of rollovers, something that we
22 can't control. We don't control the six balls that fall out
23 of those machines, and so forth. It's all based on a lot of
24 probability and statistics. And what staff have done
25 recently is we've quantified how lucky we are. Rather than

1 just say, oh, we're lucky, and you're just going, like,
2 well, what does that mean, we've now quantified it? So,
3 we've done it for last fiscal year, and by the June meeting,
4 we'll be able to calculate it for the current year. So, a
5 mathematical simulation is one way we can determine just how
6 likely it is that our jackpot luck and sales in any given
7 year were to occur. So, what this simulation does is it
8 compiles sales for each draw, then calculates the
9 probability of it having a jackpot winner or it rolling
10 based on the sales levels. Using that probability, the
11 computer simulation just randomly determines if that
12 specific draw is going to roll or have a winner, and it does
13 that essentially for the 104 draws in a year in Mega
14 Millions. Now, we build a thousand possible outcomes
15 through this simulation, so a thousand different potential
16 ways that a year could play out. And now, with those
17 thousand possible outcomes, which are now graphed on the
18 chart in front of you, we get a better picture of how the
19 actual sales year performs relative to what would have been
20 mathematically expected. So, for Mega Millions in Fiscal
21 2023, sales in California were about \$793 million, and that
22 was at the 84th percentile of rollover luck, and that's
23 indicated by the dark blue bar there. And that means that
24 we would have had lower sales about 84 percent of the time,
25 or in 840 of the thousand simulated scenarios, the sales

1 were lower than what we actually achieved.

2 **COMMISSIONER MILLS:** Jim, what's the measurement on
3 the left?

4 **DEPUTY DIRECTOR HASEGAWA:** Oh, the number of
5 simulations.

6 **COMMISSIONER MILLS:** Got it.

7 **DEPUTY DIRECTOR HASEGAWA:** So, you can see that
8 the most frequent simulations, again, probably closer to the
9 percentile, is, nationally speaking, in the low \$3 billion
10 range rather than in the mid-\$5 billion.

11 **COMMISSIONER MILLS:** I see.

12 **DEPUTY DIRECTOR HASEGAWA:** And then to put these
13 numbers into perspective, made them into California. So, we
14 said Mega Millions, we sold \$793 million. An average year
15 of rollover luck for Mega Millions would have produced sales
16 of about \$600 million in California. So, that \$192 million
17 higher level is surely due to better rollover luck, and
18 that's a way to think of the difference between for Mega
19 Millions in California, the 50th percentile and the 84th
20 percentile. Now, Powerball also had very good rollover luck
21 last year as well. Last year it came in at about the 85th
22 percentile. So, again, compared to what we would have sold
23 with average rollover luck and our actual Powerball sales,
24 our actual sales were about \$173 million higher than we
25 would mathematically expect.

1 So, switching from those statistics, we're going
2 to move into this thing called "jackpot fatigue," which is
3 something that the industry experiences with these jackpot
4 games. So, with billion-dollar jackpots no longer being a
5 novelty, we saw news coverage decline as well as sales at
6 comparable jackpots decreasing in 2023 compared to the
7 levels we saw in 2022, and you can see that in the chart
8 above, and I'll give you one example. For jackpots between
9 \$1 billion and \$1.3 billion, sales in 2022 averaged about
10 \$65 million, and there were three draws that had jackpots of
11 that size. The earned media, in other words, the value of
12 the free media that we get from the press for covering that
13 large jackpot, had an average value of over \$360,000 per
14 draw. You look now at Calendar Year '23, sales for the same
15 jackpot level have now dipped to about \$28.4 million per
16 draw, and the value of the free media that we get has
17 declined to about \$195,000. So, they've got to go hand in
18 hand because probably there's less buzz about it, less
19 people talking about it, so fewer people become aware of a
20 billion-dollar jackpot, and so they don't necessarily go to
21 the stores.

22 **COMMISSIONER MILLS:** And the interest rate issue
23 that you talked about earlier, is that fairly constant
24 between '22 and '23?

25 **DEPUTY DIRECTOR HASEGAWA:** These two years

1 don't really, because the Fed hike has stopped a little bit,
2 so I don't think that's a major player in it because by
3 then, in 2022 it was actually rates growing, so it's higher
4 in 2023, so you would expect it to actually be kind of the
5 opposite effect potentially. So, all of this discussion and
6 a lot more time spent on jackpot games this year because I
7 have a lot more data to present, not just and here are the
8 sales, we have other data to present.

9 So, there are some implications from all of this.
10 So as reported in the press, the Federal Reserve is likely
11 to cut interest rates in '24 and '25, so that will reduce
12 the size of the annuitized jackpot our typical sales levels
13 get. So, that will depress jackpot amounts and also the
14 frequency of these big jackpots. With jackpot fatigue,
15 sales in subsequent years will be maybe at 2023 levels or
16 potentially even lower, resulting in jackpot sequences
17 taking longer to reach significant levels. And as such, the
18 sales goal shouldn't assume such great rollover luck as we
19 experienced in 2022-23. Assuming average rollover luck,
20 sales goals for Mega Millions and Powerball would be lower
21 than the actual sales we've been experiencing over the past
22 couple of years. And so now, we've been working a lot with
23 the Finance group going through these numbers so that they
24 can use -- we've been giving them the percentiles and what
25 sales would be at that level, so we can now talk about

1 rollover luck in a much more quantified way.

2 Switching gears to something on Scratchers I'm
3 pleased to talk about is one of the Lottery's big
4 initiatives, as you're well aware, is to reposition the
5 Scratchers product category so consumers see the fun and
6 play value of the tickets rather than thinking about the
7 winning prizes, the top prizes, and so forth, and then
8 feeling guilty if they didn't win. So, since the Scratchers
9 category repositioning efforts began in September of 2021,
10 playership of Scratchers has significantly increased, as you
11 can see from the charts there. We are now averaging roughly
12 50 percent of California adults playing Scratchers in a
13 given year, and about one-third play on a monthly basis.
14 And with the marketing efforts that you've seen before, the
15 number of core players and the number of casual players have
16 both increased. So, you can see again box digits around the
17 22 and the 27 mean that's higher than the prior one. Now,
18 speaking of casual players, they're a key component for this
19 strategy. This effort's main goal was to break down
20 barriers amongst our casual or light players that will
21 eventually lead to increased play. Since the category
22 repositioning effort began, there's definitely evidence that
23 casual players' perceptions of Scratchers are shifting,
24 resulting in less guilt about playing these entertaining
25 products. As these perceptions shift, so does playership.

1 Both core players and casual players have higher monthly
2 play than before the repositioning efforts began.

3 **CHAIR AHERN:** Before the what began?

4 **DEPUTY DIRECTOR HASEGAWA:** Pardon?

5 **CHAIR AHERN:** Before the what began?

6 **DEPUTY DIRECTOR HASEGAWA:** Before the effort to
7 change people's perceptions about the Scratchers product, to
8 be more about the fun and the play value in the tickets and
9 not just about it being a matter of if you win or lose by
10 scratching the ticket.

11 Because the prize payouts in different products
12 aren't the same, the share of sales is not necessarily the
13 same as when we look at the estimated share towards our
14 contribution to education. So, on the left is the share of
15 sales, and then you can see that Scratchers have comprised
16 about 70 percent of our sales over the past couple of years.
17 Yet when you look at the right, they account for about half
18 of the contributions to education. So, this is one of the
19 reasons why from a Strategic Plan standpoint and all we've
20 emphasized so much trying to find ways to grow our Draw Game
21 sales, since they're so important to our bottom line.

22 As part of this Business review, I will present
23 some insights gained from a research study we conducted to
24 understand consumer's reactions to other companies
25 celebrating their anniversaries. So, brands like Disney,

1 In-and-Out Burger, Pepsi, and Starbucks, to name a few,
2 recently milestone anniversaries. Based on how consumers
3 responded to these events, plus other questions posed to a
4 random sample of all California adults, some key findings
5 were gleaned. Many of these companies had very memorable
6 anniversaries. Efforts that tap into a nostalgic factor
7 helped make these very successful and very memorable. In
8 other words, nostalgia seems to drive the saliency of these
9 anniversary programs. A recommendation to incorporate
10 elements promoting California pride and being inclusive
11 beyond just Lottery players was also made by the research
12 firm conducting the study, based on assessing these other
13 brands and how they've conducted their anniversaries and
14 consumer reactions to them. And other aspects of corporate
15 anniversary programs that generate the most interest with
16 consumers in general involve offering limited edition
17 products or branded merchandise that's limited edition, or
18 in some cases special deals or promotions in support of the
19 anniversary. So, I think the bottom line is that this
20 research really showed that an anniversary celebration can
21 provide a unique opportunity to engage with customers and
22 the public at large, and all this information has been
23 provided over to those who are going to be involved in
24 planning our 40th anniversary.

25 We monitor consumer sentiment on a variety of

1 topics, so this is the fourth survey that we've internally
2 done surveying with California adults to take a pulse on
3 their various feelings. This year the topics centered on
4 things like inflation, changes in consumer spending,
5 shopping behavior trends, and a number of other issues that
6 could impact Lottery play in the upcoming year. The study
7 started in 2020, and the first couple years of that study, a
8 lot about perceptions and behaviors in light of the pandemic
9 were central to the survey. So, here's some key insights we
10 found: The effects of inflation in terms of budgeting for
11 essentials like food, housing, and other bills has grown
12 compared to sentiment a year ago. Seventy-one percent of
13 California adults feel that a greater share of their income
14 is going to these essentials now than it had been in the
15 past year. On the other hand, sentiment about finding ways
16 to incorporate fun and distraction is not as important as it
17 was, say, in the prior few years coming out of the pandemic.
18 And directly talking about spending, people's, what they
19 think or their anticipated spending in the upcoming year,
20 spending on things like Lottery, other gambling activities,
21 going to movie theatres, attending live events, and even
22 vacations were thought to be going down in the upcoming
23 year. On the other hand, consumers anticipated spending
24 more on things like gas and groceries in the next 12 months.
25 So, all of those things are factors that we use and we talk

1 about to others in helping to understand where our sales
2 might be going next year. I've shared passenger revenue
3 figures in the past, so I decided to extend the chart a
4 little bit. Just, FYI, this is the revenue figures from
5 Southwest Airlines. It continues to show year-over-year
6 gains even through the first quarter of calendar year 2024,
7 so the most recent data there is through March.

8 And switching gears a bit from the retail side of
9 our business, despite the fairly recent addition of Walmart
10 Super Centers to our network, that we've talked about in
11 other meetings, at last report, Walmart has already climbed
12 to be our ninth-largest seller. Walmart has reported to us
13 that its Lottery sales in California continue to outpace
14 their expectations, and Walmart intends to work towards
15 becoming one of our top five-selling retailers, so that's
16 the mindset of the spirit that they have with regard to
17 Lottery products there.

18 I also want to report on a pilot program started
19 this current fiscal year. Our Sales and Marketing, Security
20 and Law Enforcement and ITS divisions have teamed up with
21 IGT to be their first jurisdiction to pilot their Scratchers
22 inventory management and loss-prevention tool. We have a
23 first there. Smart Count provides daily tracking of the
24 retailers' activated Scratchers inventory. It also allows
25 retailers to deactivate their tickets, placing them in a

1 blocked status after closing. The benefit of this is that
2 this prevents the unlawful cashing of prizes if the tickets
3 are stolen overnight, as well as sending a real-time,
4 automated alert to SLED. And our Security and Law
5 Enforcement Division had reported that already to date among
6 the pilot locations, there have been five theft-related
7 incidents that have occurred, and because these were in
8 Smart Count pilot locations, the Lottery was provided with
9 accurate inventory of the stolen inventory so that we could
10 flag them as stolen in the gaming system, and then they
11 wouldn't be able to be cashed. It's already showing some
12 benefits, and we'll talk about what's up next with it when I
13 get to the plan for next year.

14 And so, turning over the Business Objectives for
15 the upcoming year and beyond, these will allow the Lottery
16 to continue growing contributions to education in the
17 future. So, this year there's a new addition to the
18 Business Objectives, and that's "Complete the Planning and
19 Begin Celebrating the Lottery's 40th Anniversary." The 40th
20 anniversary provides a great opportunity for us to engage
21 with our players, our retailers, non-playing Californians,
22 and various stakeholders. And rather than just the
23 anniversary date, which happens to be October 3rd, the plan
24 is to use the 2025 to celebrate our anniversary. One
25 example is introducing a new \$40 Scratchers price point with

1 a ticket to commemorate the 40th anniversary. I will say
2 that even with this higher price point moving up to \$40, we
3 are still below the average U.S. Lottery in terms of its
4 highest selling ticket, because as I mentioned 22, which is
5 about half, already have a ticket at the \$50 or higher
6 level. And as you know, now I've changed my writing, so I
7 said something different, there was an agenda item that
8 Sharon presented earlier about the new price point.
9 Additional tactical details about the 40th Anniversary plans
10 as they become available will be presented next month. As
11 you can see, some of this is still evolving at this time.

12 Turning to Scratchers, expanding Scratchers sales
13 by removing barriers to play among infrequent players, and
14 that's why the \$40 game is probably not in this one; it's
15 more appropriate with the Anniversary, because while it may,
16 because of the celebration and all with the 40th anniversary,
17 it's probably going to more played by our core players
18 rather than our casual players. Now, in prior years, we
19 have shown the various barriers to play that exist among our
20 casual and infrequent players. I'm not going to go through
21 all of them, although the strategies and tactics that we'll
22 be talking about reflect those barriers. So, as discussed a
23 little earlier, one of the key perceptual barriers about how
24 they perceive Scratchers and turning it more into about the
25 fun and play of the game, that barrier is starting to be

1 reduced through changes in our Scratchers product offerings
2 and from the advertising efforts. The program to reposition
3 the Scratchers product in the consumer's mind is working and
4 showing positive results, as I shared a little bit earlier,
5 and these efforts will continue next year. Additionally,
6 plans for a pilot to enable debit card purchases at our
7 self-service machines will be developed. So, to grow our
8 sales and contributions to education in a responsible
9 manner, as indicated in our mission, data has shown that
10 there is significant potential by boosting play among our
11 infrequent players, and that's why this is a specific
12 objective for our organization.

13 Turning to Draw Games, under this objective, the
14 Mega Millions Consortium has been developing and testing
15 potential enhancements to its jackpot game, and some
16 decisions will be coming on that, so we'll be talking about
17 it in the near future. And the California Lottery for our
18 own internal games, we are also going to be looking and
19 doing the same thing, looking at possible options, perhaps
20 testing some of them to look for enhancements in our Draw
21 Game products.

22 Now, looking at the retail side, this business
23 objective is to explore new ways to expand the retail
24 network and to better leverage our large and very big asset,
25 the retail network. As examples of the efforts to diversify

1 the types of locations being added to the network, there is
2 a totally new trade channel that we are working to recruit,
3 and it's kind of an interesting one. I didn't know if you
4 were aware of it. They're developing high-end convenience
5 stores connected to electric vehicle charging stations.
6 Obviously, people have to charge for a while, and this is a
7 way they can be purchasing things there. Additionally, our
8 teams are looking into the expansion of our presence in the
9 sports bar segment for the Hot Spot product. To improve the
10 Lottery's presence in existing locations, a couple of pilot
11 tests for new digital signage will be undertaken. As part
12 of the IGT contract extension, the Lottery will be receiving
13 equipment and support for digital menu boards and digital
14 play centers. So, the digital menu pilot encompasses
15 installing dual 49-inch displays like those shown on the
16 picture on the left, and the other pilot calls for 50
17 locations receiving a digital play center like the one
18 depicted in the picture on the right.

19 **CHAIR AHERN:** Jim, is there a way to keep track
20 of the number of winning Scratcher tickets sold at, say,
21 this store you're showing right now? So, this store could
22 say, today we have 10 Scratcher winners?

23 **DEPUTY DIRECTOR HASEGAWA:** Yes. I don't know
24 about daily because of the time delay and so forth, but
25 there actually are things that kind of do that already in

1 terms of maybe a longer period of time at that store.

2 **CHAIR AHERN:** Just thinking the store could
3 advertise and celebrate the winners that they have in their
4 store.

5 **DEPUTY DIRECTOR HASEGAWA:** We have a "how many
6 dollars" winners. It's the dollar amount in prize winnings
7 as well as the dollar amount in contributions to education
8 that that retail location has had based on their sales.
9 It's not quite down to that day. It's a little longer time
10 frame than that, and that's shown on --

11 **CHAIR AHERN:** Those digital things, they roll
12 over, right? It's not just one message. It's a --

13 **DEPUTY DIRECTOR HASEGAWA:** Correct. Right, and
14 even the smaller units that we have today in stores, that's
15 a type of, I guess, "roll" if you want to call it, that
16 rolls to different screens, and one of the screens provides
17 that type of localized information.

18 **CHAIR AHERN:** I just know the Lottery players go
19 to the stores that have the winning tickets, they might be
20 able to add to the excitement of their store.

21 **DEPUTY DIRECTOR ALLEN:** (Inaudible) winning
22 ticket (overlapping).

23 **CHAIR AHERN:** Nice.

24 **DEPUTY DIRECTOR HASEGAWA:** And we'll be
25 learning from other states that are piloting this, like,

1 what kind of messaging works better, and so forth, because
2 some states have started to install these types of equipment
3 again on a pilot basis. Now, earlier, we talked about the
4 Smart Count pilot, speaking of pilots. Retailer research
5 was recently conducted by IGT to determine potential
6 enhancements to this software. The plan would be to expand
7 the pilot once these modifications are made into the Smart
8 Count software.

9 And as mentioned in prior presentations of the
10 Business Plan, this objective to continue to improve
11 knowledge and perceptions about the Lottery is another
12 critical piece for our long-term success and growth. As you
13 may recall, the Lottery's Education and Communications
14 Campaign got underway in January of this year and was the
15 first time in many years where we had put any paid media
16 behind a message to educate the public about the Lottery's
17 mission and our public benefit to Californians. The current
18 year's effort concentrated radio and video efforts in just
19 two specific markets, Fresno and San Diego, and utilized
20 social media statewide with both static and video assets in
21 English and Spanish. The plan for 2024-25 is to scale that
22 effort up, adding some frequency and hopefully broadening
23 the reach by potentially adding markets, and this will all
24 depend on the actual funding included in the budget, and
25 that's why at this time the details are not as concrete as

1 they may be come June. And between now and the June
2 meeting, we'll be finalizing tactical details, and for a lot
3 of our -- there are many infrastructure internal projects as
4 well, and some of those will be highlighted in the June
5 meeting. I tended to concentrate on ones that relate
6 ultimately to the sales goal but that Nick would be
7 presenting in all, but for those initiatives, we are in the
8 middle of evaluating them, determining the staff resource
9 needs, and if we have the bandwidth for which projects, and
10 then prioritizing them, and so that's all in the works as
11 well. So, as I said at the beginning of the June
12 presentation, we'll provide a more detailed review of the
13 specific initiatives, the tactics, and a little more
14 details, as well as the progress on our multi-year projects,
15 some of which you've heard about last year or the year
16 before. So, there's still a little bit more work that we'll
17 all be working on between now and the June meeting when we
18 formally present it to you for a vote. At least now, you
19 kind of got insights on where we stand with the Plan as of
20 this moment, and I'd be happy to answer any questions at
21 this time.

22 **CHAIR AHERN:** Any questions?

23 **COMMISSIONER MILLS:** Yes.

24 **CHAIR AHERN:** Okay.

25 **COMMISSIONER MILLS:** Thanks, Jim, for the

1 presentation. I always appreciate. I'm kind of a data
2 girl, data geek, so I always appreciate all the data that
3 you bring forward and the analytics. I want to go back to
4 the conversation about the pricing of games. And so, we've
5 added a \$25 and a \$40 for our 40-year anniversary. You
6 talked about the growing trend of states introducing \$50
7 games. Can you talk to us a little bit about why we've
8 decided not to go and produce a \$50 game along with what the
9 industry trend is?

10 **DEPUTY DIRECTOR HASEGAWA:** Well, but
11 specifically on the 40th, it does tie in with a milestone
12 anniversary, so it makes it more of an event and probably
13 will broaden the appeal of the higher price point because of
14 that. So, that's one reason why 40 was selected. The
15 reason maybe in prior years that 50s and 100s weren't, was
16 we had shown data on, like, our spending levels with our
17 core players, which are our casual players, and again, based
18 on things like prize payout and trying to find that optimal
19 prize payout mix, it didn't seem a time for us to introduce,
20 like, say, a \$50 or \$100. Not to say that it won't be down
21 the road, but that was kind of the reasoning behind it, kind
22 of to try to put our efforts into the casual players a
23 little bit more and boost their sales, so that way, we have
24 a larger pool to draw into higher price-point products.

25 **COMMISSIONER MILLS:** Thank you. So, it will be

1 something that we'll continue to evaluate?

2 **DEPUTY DIRECTOR HASEGAWA:** It's constantly
3 being evaluated, and the fact that now we have even more
4 jurisdictions who have gone to that \$50 and then a \$100
5 price point gives us a lot more data points to actually do a
6 better analysis on.

7 **COMMISSIONER MILLS:** Uh-huh. Great. So, there
8 were two slides in here that showed different trends. One
9 was the Lottery Sales by fiscal year?

10 **DEPUTY DIRECTOR HASEGAWA:** Uh-huh.

11 **COMMISSIONER MILLS:** And I just wanted to ask,
12 like, this may be in Nick's presentation, I'm not sure, but
13 it would be interesting to see this year's budget included
14 in there maybe in the next presentation just to show the
15 trend, because you can see the -- yes, that one. So, when
16 we come back at the next meeting to include the FY 2024-25
17 budget just so we can see where that falls in that trend?
18 And then also, there's Slide 30 that showed jackpot games.
19 It showed the percentage of sales by category and then the
20 estimated share --

21 **DEPUTY DIRECTOR HASEGAWA:** Versus
22 contributions.

23 **COMMISSIONER MILLS:** -- of -- would love to see a
24 bar added for the budget as well in our next presentation
25 just to add a little bit more trend analysis to the budget

1 numbers that we'll be asked to approve next time. It's
2 Slide 30. So, that's just a request for the two of you to
3 consider, and I don't know if that can go in your
4 presentation or Nick's presentation, but.

5 **DEPUTY DIRECTOR HASEGAWA:** Yes, it would
6 probably be generated by us, though --

7 **COMMISSIONER MILLS:** Yes.

8 **DEPUTY DIRECTOR HASEGAWA:** -- because these are
9 estimates because we really don't have, like, separate
10 money, that's, like, this is the Scratcher money expenditure
11 and so forth, so, our group does some extrapolation to do
12 that.

13 **COMMISSIONER MILLS:** This little budget is an
14 estimate, so.

15 **DEPUTY DIRECTOR HASEGAWA:** Yes.

16 **COMMISSIONER MILLS:** However, you have to make --

17 **DEPUTY DIRECTOR HASEGAWA:** Or even these
18 numbers, even though these are actual sales, and so forth,
19 ascribing an expenditure to one product versus the other, we
20 have to do some rough estimations. It's primarily using the
21 prize payouts, and we kind of assume certain things with the
22 other types of expenditures in the organization, but, yes,
23 we can probably take a swipe at that.

24 **COMMISSIONER MILLS:** Understood. Okay. So,
25 something to consider. Thank you. And then my last

1 question was around the Mission, Vision, Values Project. I
2 think that was an explicit goal a couple years ago, and it
3 kind of dropped off, and so, I would love to hear more,
4 maybe in the next Board Meeting presentation about how the
5 Mission, Vision, Values Project is perhaps, like,
6 interwoven. I think that's what we heard last year is that
7 it was interwoven into kind of all the different goals and
8 tactics. I would love to hear a little bit more about,
9 like, how that's now integrated into the fabric of the
10 annual plan and how we're keeping that alive.

11 **DEPUTY DIRECTOR HASEGAWA:** Yes, I can't
12 (inaudible) at this moment address it for each tactic, but
13 how it's addressed in the planning is that as we develop
14 plan proposals, that's actually a section. We take that
15 into account.

16 **COMMISSIONER MILLS:** Okay.

17 **DEPUTY DIRECTOR HASEGAWA:** Along with Change
18 Management, another initiative here in the organization, so
19 those are things that are looked at to, in some cases, some
20 projects are easy to maybe look at the benefits in terms of
21 maybe sales benefits, but another benefit that we have
22 people describe is how it helps contribute to the Lottery's
23 mission or our vision and values. Because there's a lot of
24 the values of the organization that some of our projects
25 really are designed, or it's to achieve those objectives.

1 Like objectives like transparency and so forth, things like
2 that, so those are actually built into the Plan proposals.
3 I don't have information down to the specific proposal, like
4 which proposals --

5 **COMMISSIONER MILLS:** Sure.

6 **DEPUTY DIRECTOR HASEGAWA:** -- link to which
7 value and so forth, but I just wanted to give you that at a
8 high level, how it's being embodied into the overall
9 planning process.

10 **COMMISSIONER MILLS:** So, it's integrated into the
11 department planning process --

12 **DEPUTY DIRECTOR HASEGAWA:** Right.

13 **COMMISSIONER MILLS:** -- where people have to kind
14 of think about how does this help accelerate our Mission,
15 Vision, and Values? Okay. Thank you.

16 **CHAIR AHERN:** All right. Thank you very much,
17 Jim. Appreciate it.

18 **DEPUTY DIRECTOR HASEGAWA:** All right.

19 **CHAIR AHERN:** Moving on to Item #6d.

20 **DEPUTY DIRECTOR HASEGAWA:** I'll flip forward
21 for you.

22 **CHAIR AHERN:** Okay. We have a Draft Fiscal Year
23 2024-25 Budget, by Nick.

24 **DEPUTY DIRECTOR BUCHEN:** There you go.

25 **CHAIR AHERN:** Okay. And good morning.

1 **DEPUTY DIRECTOR BUCHEN:** Good morning. Okay. So,
2 I'll provide an overview of the Lottery's Draft Budget for
3 the 2024-25 Fiscal Year, which begins on July 1st. Certain
4 pieces of the Draft Budget are still being refined, and I'll
5 highlight the areas today for which we expect changes to be
6 made when I present the budget for approval next month.
7 Although it is not completely finalized, I'm presenting this
8 draft as a non-voting informational item to allow you to
9 weigh in on the direction we are headed and provide you an
10 opportunity to give more consideration and be better
11 informed when you vote on the budget next month.

12 I'll start with a quick recap of the zero-based
13 budgeting process, in which we develop the Lottery's
14 operational expense budget from the ground up. This entails
15 vetting and justifying each individual element of expense
16 prior to inclusion in the proposed budget, which enables
17 resources to be concentrated where they are most effective
18 and best aligned with the Lottery's strategic objectives.
19 This process started with the Budgets Team meeting with the
20 various program areas throughout the Lottery to scrutinize
21 costs necessary to, quote-unquote, "keep the lights on" in
22 developing an operational budget. The Business Planning and
23 Research Team developed a preliminary sales goal by product,
24 which was used to determine the associated prize expense,
25 and this allowed us to then develop the retailer

1 compensation and gaming costs estimates since these are
2 primarily driven by sales. The Budgets Team then focused on
3 analyzing requests for discretionary spending, considering
4 factors such as alignment with the Lottery's strategic
5 direction, the cost compared to the anticipated short-term
6 and long-term benefits, and of course, the availability of
7 resources. The result of this process is the Draft Fiscal
8 Year 2024-25 Budget.

9 **CHAIR AHERN:** People in the back can see that?

10 **DEPUTY DIRECTOR BUCHEN:** Yes. Yep. So, this
11 projects \$8.8 billion in sales revenue and a contribution to
12 education of more than \$2 billion. And don't worry about
13 trying to make out the detail on this slide.

14 **CHAIR AHERN:** Okay.

15 **DEPUTY DIRECTOR BUCHEN:** I'll be going over each
16 of the main sections separately in the coming slides. What
17 I'll be going over with you today compares our estimated
18 revenue and expenditures for the 2024-25 Fiscal Year to our
19 estimate of how we will end the current fiscal year on June
20 30th, and I'll start by providing some broad context on this
21 budget. As we've experienced with our proposed budgets in
22 each of the last two fiscal years, we are again projecting
23 year-over-year decreases in both sales revenue and the
24 resulting contribution to education for the coming fiscal
25 year, as compared to our estimate of how we will finish out

1 this current fiscal year. And similar to last year, the
2 primary reason is due to the much better than expected
3 performance we had in both Mega Millions and Powerball in
4 the current fiscal year, and we'll go into more detail on
5 that momentarily. If we instead compare what was budgeted
6 for this current fiscal year or what is being proposed for
7 the coming fiscal year, we are projecting year-over-year
8 increases in both sales and contribution to education.

9 As I walk through the draft, keep in mind that the
10 Lottery's budget is a basic formula comprised of four major
11 elements, our projected ticket sales revenue minus the
12 associate prize expense minus our administrative expenses
13 equals our contribution to education. And remember that all
14 dollar amounts on the slides showing the breakout of our
15 Draft Budget are reflected in thousands. Now, here's a
16 little more detail.

17 **CHAIR AHERN:** There we go.

18 **DEPUTY DIRECTOR BUCHEN:** Sales is the first major
19 element of our budget, and you can see in the middle column,
20 we are projecting a total sales goal of \$8.83 billion in the
21 Draft 2024-25 Budget. The far right column shows that this
22 is a decrease of \$491 million from the sales level with
23 which we were projecting to end the current fiscal year.
24 The second row of this slide shows that the current year
25 performance of our multi-state games is the primary reason

1 for this projected year-over-year decrease in total sales.
2 In this current fiscal year, we had four different Mega
3 Millions draws, for which the advertised jackpot was more
4 than \$1 billion, and for Powerball, we had an incredible
5 nine different draws, for which the advertised jackpot was
6 \$1 billion or more, and jackpots at these levels are still
7 rare and cause our sales in these games to grow
8 exponentially. Because experiencing that many jackpots at
9 crazy high levels in a single year is truly a statistical
10 anomaly, we cannot assume that we will have this same luck
11 in the coming fiscal year.

12 **CHAIR AHERN:** I would guess about the 85th
13 percentile.

14 **DEPUTY DIRECTOR BUCHEN:** We hope. That said, we
15 have incorporated the new process to develop estimated sales
16 for Powerball and Mega Millions beginning with the coming
17 year, using simulation models that Jim spoke of earlier.
18 This methodology considered looming interest rate changes
19 that will impact the advertised jackpot amounts and assumes
20 the 50th percentile for rollover luck, which means that half
21 of the scenarios in the simulation would yield more draw-to-
22 draw rolls leading to higher jackpots, and half of the
23 scenarios would be less favorable in term of rollovers and
24 high jackpots. And on a much smaller scale, higher than
25 expected performance in this current fiscal year also

1 explains the projected year-over-year decrease in SuperLotto
2 Plus, shown on the third line of this slide. Specifically,
3 SuperLotto Plus jackpot reached \$82 million in the second
4 month of this current fiscal year, and prior to that, the
5 last time SuperLotto Plus jackpot crossed the \$80 million
6 threshold was back in February of 2008. And going to the
7 top row of this slide, projected year-over-year growth in
8 Scratchers will partially offset these decreases.

9 **CHAIR AHERN:** And Scratchers, because we're going
10 to see a reduction in the multi-state games because of not
11 reaching a billion dollars and the \$40 Scratcher?

12 **DEPUTY DIRECTOR BUCHEN:** And that's actually,
13 that's not even in the numbers yet for Scratchers. So, this
14 is a very preliminary estimate for Scratchers at the moment.
15 But even with that, we know that we're going to have a
16 refinement in this number for what I present next month. It
17 doesn't yet factor in the proposed Scratchers Product Plan
18 for the coming year, and it also doesn't have the proposed
19 vision of the new price points that have been discussed
20 earlier. And so, also, so that was the 2024-25 Scratchers
21 figure I was just talking about. For the current projection
22 for Scratchers, that's also going to change. It's highly
23 conservative at the moment because it assumes that year-
24 over-year declines in Scratchers validation sales that we've
25 seen will continue in these final two months of this current

1 fiscal year. And so, for the budget that I present next
2 month, we'll have another month of data to use in that
3 analysis. So, appreciating that the Scratchers figures for
4 both years will be updated for my presentation next month,
5 the Draft Budget's goal of \$6.56 billion in 2024-25
6 represents a modest increase of \$24 million over the current
7 year projection. And moving down to Hot Spot, the \$438
8 million sales goal for Fiscal Year 2024-25 is \$13.2 million
9 higher than our projected sales for this current fiscal
10 year, and this is primarily due to having a full fiscal year
11 of the initiative that significantly increased prize payout
12 of the \$2 Bulls-eye Option while slightly lowering \$1 base
13 Hot Spot payouts. This initiative became effective in the
14 second quarter of this current fiscal year and provides a
15 greater incentive to play Hot Spot's Bulls-eye feature. And
16 lastly, the Daily Games, which are comprised of Fantasy 5,
17 Daily 3, Daily Four, and Daily Derby, are projected to
18 decrease by \$12.2 million in Fiscal Year 2024-25. This is
19 primarily due to better than anticipated performance we
20 achieved in Fantasy Five in this current fiscal year that is
21 not expected to repeat in the coming fiscal year.

22 The next area of the budget is prize expense. On
23 the second to the last line, you can see that prize expense
24 is projected to total \$5.8 billion in 2024-25. This is a
25 decrease of \$248.7 million from the current-year projection,

1 and this decrease is driven by the overall year-over-year
2 decrease in sales. And prize expense is another area of the
3 budget that will change when I present it for your approval
4 next month. You may recall that the Lottery has a policy
5 requiring the Director to make an annual determination that
6 prize payout levels across all games have been optimized for
7 the coming fiscal year to ensure that funding for education
8 is maximized annually. So, as we finalize the sales and
9 prize expense estimates in the next few weeks, the budget I
10 present for your approval next month will have the Director-
11 approved optimal prize payouts reflected for the coming
12 fiscal year.

13 And the next major category of the budget is
14 administrative expense that the Lottery Act caps at 13
15 percent of total annual sales. And this slide reflects the
16 first two areas within administrative expense, which are
17 retailer compensation and gaming costs. Combined, these are
18 estimated to total \$747.8 million in 2024-25, and that
19 represents a decrease of \$49.2 million from the current year
20 projection. Most of these items have projected year-over-
21 year decreases, which mirrors the total projected decrease
22 in sales. There are modest estimated increases, however,
23 currently projected in a couple of these items, primarily
24 due to the projected year-over-year increase in Scratchers
25 sales. So, this applies to special handling, which is a

1 commission that retailers mainly earn for redeeming free
2 Scratchers ticket prizes, and it also applies to Scratchers
3 ticket delivery and support costs. And the final area of
4 administrative expense is our operating costs, and I'll go
5 through these line by line. So, the first of these items is
6 personal services, which includes the salary and benefit
7 costs of all Lottery employees, including temporary help and
8 overtime. The projected \$8.7 million year-over-year
9 increase is primarily attributable to a general salary
10 increase negotiated last year that becomes effective on July
11 1st; the conversion of several permanent, intermittent
12 positions to full-time positions to meet our operational
13 needs in the field; and the cost to fund 12 proposed new
14 positions for the coming fiscal year. I'll go into detail
15 on each new position request when I present the budget for
16 approval next month, and we are still refining our new
17 position proposals to meet our operational needs, and this
18 is another area that may change slightly in what I present
19 for approval next month. As shown in the percentage of
20 sales column on this slide, the \$144.1 million included in
21 the Draft Budget for personal services in Fiscal Year 2024-
22 25 represents just 1.6 percent of our projected revenues, so
23 we continue to run very lean even with the proposed
24 investment in new positions.

25 Moving to the next line, the marketing program, we

1 are projecting a year-over-year decrease of \$14.2 million.
2 The largest component of this decrease is shifting funding
3 from the marketing program to contractual services to
4 continue the Lottery's education campaign that Carolyn has
5 shared with you in the past. This campaign is designed to
6 uplift the Lottery's mission and position the Lottery in a
7 more favorable light among California adults. In the
8 current and previous fiscal years, this effort was handled
9 through one of the Lottery's existing advertising agencies.
10 We instead propose having a dedicated contract for this
11 effort beginning in the coming year to help boost public
12 confidence and support and ultimately generate more funds
13 for public schools.

14 And for the next line item, contractual services,
15 this is projecting a year-over-year increase of \$14.3
16 million. The largest component of this projected increase
17 is the shift I just described from the marketing program to
18 having a dedicated contract to continue the Lottery's
19 education campaign. There are a couple of other elements
20 leading to this increase. Another driver is the year-over-
21 year increase for our public website contractor to elevate
22 the Lottery's communication and digital presence by
23 implementing website design, performance, and operations
24 enhancements, as well as improving security. Additional
25 components leading to the increase in contractual services

1 costs in the coming year are investment to automate certain
2 Lottery Human Resources functions that are currently annual
3 processes, as well as increased costs for software support
4 and services.

5 On the next line, depreciation, we are projecting
6 a year-over-year decrease of \$1.8 million. This is
7 primarily due to us retaining equipment such as jackpot
8 signs at vending machines beyond the end of their
9 anticipated useful life. And for the operating expense
10 line, we are projecting a year-over-year increase of
11 \$137,000. That modest increase is the net of two larger
12 adjustments. An increase in funding results from a higher
13 assessment by the Department of Finance to pay a pro-rata
14 share of the indirect costs incurred by Central Service
15 agencies, such as the Department of General Services and the
16 Legislature, and that increase is mostly offset by a
17 decreased cost resulting from the completion of a multi-year
18 remodel construction project of the Lottery's Northern
19 Distribution Center. The last two items within operating
20 costs are the reserves. In the current year, we've zeroed
21 out the reserves. The items that we funded from them are
22 already reflected as expenditures in the other cost
23 categories. And for 2024-25, we are again maintaining a \$5
24 million reserve for insurable risk, to cover fiscal
25 exposures for the areas of our organization that we are

1 self-insuring. As shown on the next line, the 2024-25 Draft
2 Budget apparently includes \$76.5 million for the
3 administrative spending reserve. This amount is simply
4 derived by formula. It's 13 percent of our total sales
5 projection minus the sum of all the administrative expense
6 items above this line, including the retail and gaming costs
7 from the previous line. Administrative spending reserve
8 acts as a safeguard against uncertainties, such as if our
9 sales do not come in as projected. This reserve is also
10 needed to meet our operational needs when unanticipated
11 items arise during the fiscal year. Looking at the bottom
12 line, the total administrative expenses, which is the sum of
13 retailer compensation, gaming costs, and operating costs,
14 including both of the reserves, is projected to be \$1.147
15 billion in 2024-25, and that is exactly 13 percent of the
16 \$8.83 billion in projected sales. Any unspent
17 administrative funds below the 13 percent cap, including
18 unspent reserve funds, will be transferred in their entirety
19 to education.

20 **CHAIR AHERN:** Is this 13 percent an obligation
21 that's written in the Lottery Act?

22 **DEPUTY DIRECTOR BUCHEN:** Correct. Yes.

23 **CHAIR AHERN:** Okay.

24 **DEPUTY DIRECTOR BUCHEN:** And the Lottery typically
25 spends well below the cap each year and has transferred more

1 than \$1.5 billion in the administrative savings to education
2 to date.

3 Moving on to the last area of the budget, this
4 represents the Lottery's sole purpose, to provide
5 supplemental funding to public education. There are a few
6 additional items beyond the major categories I've already
7 gone over that factor into the final contribution.
8 Specifically, both unclaimed prizes and interest earnings on
9 our cash sitting within the State Treasury are mandated to
10 be transferred directly to education. So, assuming both
11 reserves remain unspent, the total projected contribution to
12 public education is currently estimated to be just over \$2
13 billion in Fiscal Year 2024-25. Although this represents a
14 decrease compared to the remarkable success we've had in
15 this current fiscal year, this should not take anything away
16 from the impressive performance we are projecting for the
17 coming fiscal year. Both the sales goal of \$8.83 billion
18 and the projected contribution to education of just over \$2
19 billion reflected for Fiscal Year 2024-25 are the highest
20 levels we've included in the Lottery's budget to date. I'll
21 go into much more detail on this when I present the budget
22 for your approval next month, but this Draft Budget projects
23 that we'll fall short of the requirement that the Lottery's
24 net revenues allocated to public schools, as reflected in
25 the Commission-approved budget, be at least as much as were

1 allocated on average in the prior five fiscal years. So,
2 assuming this is still the case when I present the budget
3 for your approval next month, I'll walk you through the
4 aggressive sales assumptions that we'd need to make in the
5 budget to meet the five-year average requirement. Although
6 we highly value compliance, we would not be acting
7 responsibly if we purposely inflated our revenue numbers to
8 meet this provision.

9 **CHAIR AHERN:** That's mostly because of the 13 or
10 14 large \$1 billion events that we've had over the last
11 fiscal year?

12 **DEPUTY DIRECTOR BUCHEN:** Correct. So, we've had
13 basically unusual events increasing our contribution to
14 education in four of the five years that are currently in
15 the five-year average. The first two years were, we had
16 some generous sales resulting from coming out of the
17 pandemic where consumers were, as Jim described, either
18 unwilling or unable to participate in other forms of
19 entertainment and leisure, so the Lottery benefited more
20 during those years, and then this current fiscal year and
21 the prior fiscal year, we had the unusually high jackpots.
22 As I mentioned near the beginning of my presentation, when
23 comparing our estimated sales and contribution to education
24 for Fiscal Year 2024-25 to what was budgeted in the current
25 fiscal year, you can see we are projecting year-over-year

1 growth in both areas.

2 And my final slide for today is a simple depiction
3 to help dispel the myth of where all the Lottery funding
4 goes. So, assuming the reserves remain unspent and
5 excluding unclaimed prizes and interest earnings, you'll see
6 that 66 percent of our projected sales for Fiscal Year 2024-
7 25 will go toward paying prizes; 22 percent is estimated to
8 provide supplemental funding for education; eight percent is
9 projected to be used to compensate our retail partners and
10 to pay for our gaming costs; and less than four percent is
11 estimated to be used for our operating expenses. The eight
12 percent for retailer and gaming costs combined breaks out as
13 retailer compensation accounting for approximately seven
14 percent of total sales and gaming costs accounting for
15 roughly one percent. So, adding all of this up, 95 cents
16 out of every dollar the Lottery brings in is returned to the
17 public in the form of funding for education, prizes paid to
18 our players, and compensation paid to our retailer partners.
19 With that, I'm happy to answer any questions.

20 **CHAIR AHERN:** That's amazing, percentage-wise.
21 Really, really proud of. Any questions about the proposed
22 budget? Go ahead.

23 **COMMISSIONER MILLS:** Thanks, Nick, for the
24 presentation. I want to make sure I heard a couple of
25 things right. So, I think one of the things that you said

1 is that if you take last year's budget compared to this
2 year's budget, it will show an increase, right?

3 **DEPUTY DIRECTOR BUCHEN:** Correct.

4 **COMMISSIONER MILLS:** Have you used kind of the same
5 and we're consistent in how we build our budgets using data-
6 driven information and statistically probable outcomes, and
7 so when you take what was most probable to happen this year,
8 and data-driven to happen this year compared to what you
9 guys are saying are most probable to happen and data-driven
10 this year, you would show an increase?

11 **DEPUTY DIRECTOR BUCHEN:** Correct.

12 **COMMISSIONER MILLS:** But we're showing a decrease
13 because we have these other factors that have occurred,
14 mainly related to the big jackpot games --

15 **DEPUTY DIRECTOR BUCHEN:** Correct.

16 **COMMISSIONER MILLS:** -- that are, the least of
17 which are under our control of everything we do?

18 **DEPUTY DIRECTOR BUCHEN:** Correct. And then, like
19 I described, we're assuming the 50th percentile in the
20 numbers that we currently have, which is neither
21 conservative nor aggressive. It's --

22 **COMMISSIONER MILLS:** Uh-huh, middle of the road.

23 **DEPUTY DIRECTOR BUCHEN:** -- financially in the
24 middle, so.

25 **COMMISSIONER MILLS:** Middle of the road. Okay.

1 And then you said something about optimal prize payout, but
2 I couldn't hear what you said. Is the optimal prize payout
3 -- are those assumptions included in this version?

4 **DEPUTY DIRECTOR BUCHEN:** Not yet. Not yet.

5 **COMMISSIONER MILLS:** Not yet.

6 **DEPUTY DIRECTOR BUCHEN:** (Inaudible) Scratchers is
7 kind of the biggest component in that analysis because
8 that's what we have the most control over, so with the new
9 proposed price points that we have, that will have to factor
10 in, you know, different scenarios of how many releases that
11 we're going to have in these specific games, so all of that
12 analysis will be done and reflected in the budget for next
13 month.

14 **COMMISSIONER MILLS:** Okay, so we'll expect to see
15 some changes there. So, there's a few changes to probably
16 mostly the Scratchers games, right, from the adding in the
17 \$40 price point and factoring in the optimal prize payout?

18 **DEPUTY DIRECTOR BUCHEN:** Correct. And when all is
19 said and done, we're expecting -- I guess I should say
20 anticipating -- the 2024-25 figures to be slightly higher
21 than what I've shown today.

22 **COMMISSIONER MILLS:** Okay.

23 **DEPUTY DIRECTOR BUCHEN:** Similarly, the current
24 year projection, I wouldn't be surprised if that's also
25 higher, which then of course exacerbates that five-year

1 average because that's, like, the higher --

2 **COMMISSIONER MILLS:** Right. Like, we get penalized
3 for doing better than what, yes, what our data says we
4 should be doing. Okay, thank you. So, I'll come back to
5 this one. You may have to, like, phone a friend for this,
6 but I was wondering how the PR campaigns interact with the
7 marketing campaigns because I notice we're shifting money
8 out of marketing into PR, with declining sales, and so, I
9 just wanted to kind of understand how those two campaigns
10 work together and to make sure that our marketing work isn't
11 declining or being adversely impacted by the really
12 important work we're doing on the PR side.

13 **DEPUTY DIRECTOR BUCHEN:** I'll start, and then this
14 -- so, the primary reason that in this current fiscal year
15 and the previous year that it was funded within the
16 marketing program was that we leveraged existing resources
17 in that area. So, essentially, our primary advertising
18 agency subcontracted to -- enabled that campaign to occur,
19 so that the shift from that standpoint is really just
20 mechanically removing it from that advertising agency and
21 having a separate contract for it.

22 **COMMISSIONER MILLS:** Okay. So, there's no cut to
23 marketing like that?

24 **DEPUTY DIRECTOR BUCHEN:** Not associated directly
25 with that, but (inaudible) and that the other thing that

1 will be changing, assuming that the increased Scratchers
2 sales do lead to an increase as I'm assuming they will, by
3 definition, we'll have 13 percent of a higher number, so
4 ideally, we'd have more administrative funding available to
5 address some of these issues that we know that we have not
6 been able to afford yet in this Draft Budget.

7 **COMMISSIONER MILLS:** Okay. Okay. I'm going to let
8 that one go. Actually, I'm not. So, how do the two
9 campaigns work together? I mean, because you would think
10 that the PR campaign would also piggy-back on marketing
11 and help the marketing efforts. I just want to make sure
12 that -- are they working together even though they're on two
13 different lines on the budget?

14 **DEPUTY DIRECTOR ALLEN:** We work very closely with
15 Carolyn and the PAC team. Actually, our media agency buys
16 all of the media --

17 **COMMISSIONER MILLS:** Okay.

18 **DEPUTY DIRECTOR ALLEN:** -- to make sure that we
19 are most efficient, and so that we're not bidding against
20 each other.

21 **COMMISSIONER MILLS:** Yes.

22 **DEPUTY DIRECTOR ALLEN:** We recognize the best
23 rates, also being mindful of who the audiences are that
24 we're trying to reach with each effort, as well as sliding,
25 so there's not -- so it's complementary, not competitive or

1 overlapping --

2 **COMMISSIONER MILLS:** Okay.

3 **DEPUTY DIRECTOR ALLEN:** -- especially
4 considering, like, the Scratchers category repositioning
5 effort, it's an umbrella campaign and an effort that works
6 nicely and complemented, like, and here's where the money
7 goes. So, it's all working together, and we're coordinating
8 all the time. Our agencies are coordinating as well to make
9 sure that the messaging out there, when audiences see that,
10 it's at the right moment, the right message to the right
11 person, very mindful of our different pieces, and that's the
12 same what we do with whether it's Scratchers or our jackpot
13 games. We've got a lot of different brands and messages out
14 there in the market --

15 **COMMISSIONER MILLS:** Uh-huh.

16 **DEPUTY DIRECTOR ALLEN:** -- from a paid media
17 perspective where even at retail. There's a lot, and it's
18 different messages we're trying to get to as well as our own
19 channels. It's an orchestration of all of the different
20 messages and campaigns to make sure that they're all working
21 synergistically and not bombarding the audiences.

22 **COMMISSIONER MILLS:** Okay.

23 **DEPUTY DIRECTOR BECKER:** And I would only add that
24 although from a budget line-item perspective and even a
25 mechanical contracting perspective, with that change in the

1 new fiscal year via an RFP versus working through our
2 primary marketing agency --

3 **COMMISSIONER MILLS:** Uh- huh.

4 **DEPUTY DIRECTOR BECKER:** -- that collaboration and
5 orchestration, which is a beautiful word, wouldn't change, I
6 think for all the reasons that Sharon just alluded to with
7 being strategic about audience and message and trying to
8 ensure that while we prioritize the Education Campaign and
9 the importance of that, for all the reasons we've talked
10 about, we're not doing so at the expense of other priority
11 initiatives for the Department.

12 **COMMISSIONER MILLS:** Okay.

13 **DEPUTY DIRECTOR BECKER:** Does that make sense?

14 **COMMISSIONER MILLS:** It does, yes. Thank you. So,
15 that was the strategic reason why you moved it out of
16 marketing into PR.

17 **DEPUTY DIRECTOR BECKER:** And for full transparency
18 in a perfect world, we would have gone out for an RFP on the
19 Public Affairs side on our own a couple years ago, but there
20 were a handful of barriers internally --

21 **COMMISSIONER MILLS:** I see.

22 **DEPUTY DIRECTOR BECKER:** -- that made that
23 solution a little more challenging to get a complete up and
24 running.

25 **COMMISSIONER MILLS:** Okay.

1 **DEPUTY DIRECTOR BECKER:** And we've benefited from
2 a very close partnership with marketing and the
3 relationships with David and Goliath and all of the other
4 partner agencies in that universe. So, that's the
5 collaboration I envision will continue, just maybe of a
6 little bit different (inaudible).

7 **DEPUTY DIRECTOR ALLEN:** And also, our agency is
8 not actually producing the work; it's a subcontract.

9 **COMMISSIONER MILLS:** Yes, that's right.

10 **DEPUTY DIRECTOR ALLEN:** So, through the scope of
11 the work, there's a subcontract in there, another agency
12 partner in our roster that are all work together.

13 **COMMISSIONER MILLS:** Okay.

14 **DEPUTY DIRECTOR ALLEN:** So, that's a
15 subcontractor and actually, a separate budget from the
16 marketing program, just is billed through the contract.

17 **COMMISSIONER MILLS:** Got it. Okay. Thank you.
18 That was helpful. Just one other question about, you know,
19 our State budget is declining, and so I'm wondering if you
20 could talk a little bit about how the contraction in our
21 State budget is impacting the California Lottery or not, and
22 how any of those things might be folding into the budget?

23 **DEPUTY DIRECTOR BUCHEN:** It's interesting. So,
24 there are several things that the administration prescribes
25 that apply to all departments regardless of fund source.

1 Thankfully, for most of the items when it comes to State
2 budget, they don't directly impact the Lottery. So, one
3 good example is one of the proposals that's currently in the
4 administration's proposal to address the budget shortfall is
5 sweeping -- I think they're calling for 10,000 vacant
6 positions statewide. We won't have to contribute to that
7 because none of our positions are funded by General Fund
8 dollars. They're 100 percent Lottery sales revenue that
9 funds our positions.

10 **COMMISSIONER MILLS:** Okay.

11 **DEPUTY DIRECTOR BUCHEN:** So, that's an example of
12 something we won't have to participate in. Another example
13 is in this current fiscal year, earlier in the year, when
14 the administration started to recognize that we're falling
15 off the cliff, they put out a mandate to curtail current-
16 year expenditures and to essentially put a freeze on any
17 spending, and you had to get explicit exceptions to spend
18 during the course of the year. When that directive came
19 out, we worked with our partners over at Department of
20 Finance and clarified that that didn't apply to us. So, and
21 essentially, the primary reason is Lottery sales aren't
22 directly impacted by the State's fiscal condition. To the
23 average consumer, they don't necessarily care what's going
24 on with the State of California. They're just doing what
25 they're doing. So, our sales were actually booming during

1 this time. So, it would have been an operational hindrance
2 to us if we had to suddenly claw back on spending because
3 that would have prohibited us from doing things to generate
4 even more sales.

5 **COMMISSIONER MILLS:** Got it. Okay, thank you. And
6 then the Return to Office Initiative. If I remember
7 correctly, when I first came on, we were busting at the
8 seams in this building. Are there anticipated costs that
9 are considered in this budget related to the return to
10 office?

11 **DEPUTY DIRECTOR BUCHEN:** The short answer is not
12 yet.

13 **COMMISSIONER MILLS:** Okay.

14 **DEPUTY DIRECTOR BUCHEN:** We certainly are aware of
15 costs that will be coming due to that Return to Work
16 initiative, and --

17 **COMMISSIONER MILLS:** Not "Return to Work;"
18 everybody's been working.

19 **DEPUTY DIRECTOR BUCHEN:** Return to the Office,
20 sorry. So, an example is, to your point, we knew that we
21 were running out of space before the pandemic was even a
22 thought in anybody's mind, so we were already kind of
23 looking at options. The silver lining of the pandemic for
24 us is it enabled many employees to work remotely, and we
25 still had several who have been in the office every day --

1 **COMMISSIONER MILLS:** Right.

2 **DEPUTY DIRECTOR BUCHEN:** -- since the beginning,
3 and out in the field, of course, but it did enable us to
4 live within the parameters of the building. The Return to
5 Office Directive will now make us re-evaluate our existing
6 cubicle configurations, for example, and that will likely
7 lead to future costs and an additional contract, I imagine.
8 So, things like that are going to be coming. The other
9 thing is the availability of equipment such as monitors,
10 and, you know, we need to essentially, many cubicles right
11 now are actually empty-empty. There's no actual equipment
12 in them because people have been having in their remote
13 sites. So, we essentially need to do both purchase to build
14 out every cubicle as a workstation that's shareable in many
15 cases.

16 **COMMISSIONER MILLS:** Good. Do we have enough
17 information to include some of those costs in this budget
18 with the next round, or that'll be something we'll continue
19 to assess and that's like --

20 **DEPUTY DIRECTOR BUCHEN:** We'll continue to assess,
21 and for something like that, since it's not yet known,
22 rather than take a guess at it, what we'll do is we'll
23 earmark a portion of the administrative spending reserve for
24 that purpose. So, that's a good example of something that,
25 you know, we don't contingency budget, even if we are aware

1 a cost is coming, if we don't yet know what that cost is,
2 that's something that we'll earmark in the reserve instead
3 of actually building it into the budget.

4 **COMMISSIONER MILLS:** Okay, thank you. And the last
5 thing I want to point out is and just recognize is that the
6 Lottery set a goal of \$2 billion to education, and while
7 this budget is looking like it's going to be a decline, it
8 does still maintain that over \$2 billion contribution to
9 education, and I think that's something to be proud of. And
10 then the last-last thing I'll say is just words of
11 appreciation to both you and to Jim for bringing the
12 additional analysis that digs just a little bit deeper into
13 the assumptions and the data around some of the Draw Games
14 and what's driving the decrease and that kind of
15 reasonableness behind it. And I know that this organization
16 and this Board highly values compliance, but I think we
17 also very highly value data and reasonableness of the data
18 and setting reasonable expectations for what we think we
19 can actually do based on the market environments around
20 us, so thank you both for that and I look forward to
21 seeing how it iterates then now until our next meeting.
22 Thank you.

23 **DEPUTY DIRECTOR BUCHEN:** Thank you, and actually,
24 I definitely want to thank Business Planning and Research
25 Team. They did some great work on this. The other thing

1 you reminded me, the \$2 billion, yes, that has been in our
2 Strategic Plan for a while, but a key element of that is
3 achieve \$2 billion without any kind of unusual circumstance,
4 and so, for this budget, by definition, we're not
5 anticipating unusual circumstances, so this is actually the
6 first budget that we're projecting that will have a
7 contribution to education of more than \$2 billion without
8 any additional outside help basically.

9 **COMMISSIONER MILLS:** That's something to be
10 celebrated.

11 **CHAIR AHERN:** Anything else?

12 **COMMISSIONER MILLS:** No.

13 **CHAIR AHERN:** And Nick, I had only one question
14 on Slide #243.

15 **DEPUTY DIRECTOR BUCHEN:** Let me find that.

16 **CHAIR AHERN:** Okay, that concludes Item #6, the
17 Informational Items. We'll move on to Item #9, Commissioner
18 General Discussion. Is there anything else for discussion?
19 Item #10 is Scheduling Next Meetings. We're tentatively
20 scheduled for Commission Meetings on June 27, September 26th,
21 and November 21st, 2024. All will be held in Sacramento.
22 Item #11 is Public Discussion. Does any member of the
23 public want to address the Commission at this time? Seeing
24 none, we'll move for adjournment, and we're adjourned.
25 Thank you very much. Thank you very much for all your hard

1 work. Appreciate it. And one comment, that the care and
2 appreciation we get from the Security Detail muchly thankful
3 for all your hard work for us. You're taking care of the
4 Commissioner as he leaves. Appreciate it. Thank you. All
5 right, adjourned.

6 **COMMISSIONER MILLS:** Thank you. (End of Recording)

7 **(MEETING ADJOURNED)**

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