

STATE OF CALIFORNIA
TRANSCRIPT OF PROCEEDINGS

CALIFORNIA STATE LOTTERY COMMISSION
COMMISSION MEETING

TIME: 10:13 a.m. (Due to road closures/construction, Chairman Garrison-Engbrecht arrived late, which led to the meeting beginning at 10:13)

DATE: Tuesday, May 13, 2025

PLACE: California State Lottery Headquarters
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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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Vice Chair of the Commission
Commissioner

TIFFANI ALVIDREZ
Commissioner

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Deputy Director of Business Planning & Research

NICHOLAS BUCHEN
Deputy Director of Finance

FARIDA SARWARI
Assistant to Commission

REBECCA ESTRELLA
Recording Secretary

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1 **Tuesday, May 13, 2025**

2 **Sacramento, California**

3 **--oOo--**

4 **CHAIR GARRISON-ENGBRECHT:** Good morning. The
5 meeting of the California Lottery Commission is now called
6 to order. Please rise and join me in the Pledge of
7 Allegiance.

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

9 **CHAIR GARRISON-ENGBRECHT:** Good to see everyone.
10 Item No. 3 is the Roll Call of the Commissioners. Will the
11 secretary please call the roll?

12 **MS. SARWARI:** Good morning. Commissioner Mills?

13 **COMMISSIONER MILLS:** Present.

14 **MS. SARWARI:** Commissioner Rasouli? Commissioner
15 Alvidrez?

16 **COMMISSIONER ALVIDREZ:** Present.

17 **MS. SARWARI:** Chairman Garrison-Engbrecht?

18 **CHAIR GARRISON-ENGBRECHT:** Present. Thank you.
19 I would like to change the order of today's agenda and
20 switch Items number 9 through 11. I would like 9 to be
21 Public Discussion, 10 to be the Commissioner's Discussion,
22 and, finally, 11 will be Scheduling of Next Meetings. Do I
23 hear a motion to adopt the agenda?

24 **COMMISSIONER ALVIDREZ:** Motion to adopt.

25 **COMMISSIONER MILLS:** Second.

1 **CHAIR GARRISON-ENGBRECHT:** Will the Secretary
2 please call the roll?
3 **MS. SARWARI:** Commissioner Mills?
4 **COMMISSIONER MILLS:** Yes.
5 **MS. SARWARI:** Commissioner Alvidrez?
6 **COMMISSIONER ALVIDREZ:** Yes.
7 **MS. SARWARI:** Chairman Garrison-Engbrecht?
8 **CHAIR GARRISON-ENGBRECHT:** Yes. The next item is
9 Agenda No. 5, Approval of the Minutes. Are there any
10 corrections to the Minutes? Hearing none, do I hear a motion
11 to approve the Minutes from the commission meeting on March
12 27, 2025?
13 **COMMISSIONER MILLS:** I'll move to approve.
14 **CHAIR GARRISON-ENGBRECHT:** Do I hear a second?
15 **COMMISSIONER ALVIDREZ:** Second.
16 **CHAIR GARRISON-ENGBRECHT:** Can the Secretary
17 please call the roll?
18 **MS. SARWARI:** Commissioner Mills?
19 **COMMISSIONER MILLS:** Yes.
20 **MS. SARWARI:** Commissioner Alvidrez?
21 **COMMISSIONER ALVIDREZ:** Yes.
22 **MS. SARWARI:** Chairman Garrison-Engbrecht?
23 **CHAIR GARRISON-ENGBRECHT:** Yes. The next item on
24 the agenda is the Informational Item. Our first Item today
25 is Director Comments.

1 **DIRECTOR CHIMA:** It's a long walk. Hi. Good
2 morning, Commissioners.

3 **CHAIR GARRISON-ENGBRECHT:** Good morning.

4 **COMMISSIONER ALVIDREZ:** Good morning.

5 **DIRECTOR CHIMA:** So, as of right now, the Lottery
6 remains at 99 percent of its goal in contributions to
7 education. That's right about where we were last March when
8 I talked to you last.

9 As of the end of March, our estimated dollars to
10 education have grown to \$1.45 billion, coming in just \$12
11 million behind our goal. This represents approximately half
12 a billion dollars to education every quarter of this year.
13 Given our current run state, it's still entirely possible
14 that we will contribute over \$2 billion to education in this
15 fiscal year, and that'll make it four years in a row that
16 we've crossed that threshold.

17 Looking at our sales through early May, we're
18 sitting at just about \$7.5 billion, and that's also pacing
19 slightly below goal. As I reported in March, the primary
20 reason for this slightly below goal sales is lower than
21 anticipated sales from our Powerball. The highest Powerball
22 Jackpot of this year was only \$515 million, which was just
23 recently won by a lucky Californian at the end of March. And
24 then, the jackpot rolled for only a few weeks until it was
25 hit again on April 26th.

1 So far, this fiscal year, there have only been
2 eight -- I'm sorry. There have been eight Powerball Jackpot
3 wins nationally, and that's the highest seen in five years,
4 which means that they're getting hit at a much lower number.

5 Scratchers continues to outperform goal and given
6 that Scratchers represent a much larger share of our overall
7 portfolio, being just one percent over goal represents a \$63
8 million surplus. So, while it may look like a minor gain,
9 it's enough to offset half of the sales that we were hoping
10 to see from Powerball.

11 Within Scratchers, much of the strength has come
12 from our \$10 and \$30 price points, which are each performing
13 at more than 20 percent above their respective goals. Recent
14 hit games, such as the \$10 50X the Cash and \$30 Crossword
15 Extreme, have contributed to the success of these price
16 points.

17 Mega Millions and Super Lotto Plus are each within
18 goal of their year-to-date sales goals; held back by lower-
19 than-expected jackpots, just not to the same extent that we
20 were seeing with the Powerball.

21 With the recent enhancements to the Mega Millions
22 game, it is bringing in sales, which are on average
23 approximately 17 percent higher than comparable jackpot
24 levels prior to the game change. It's still really early to
25 speculate as to the overall impacts of the enhancement, but

1 we are monitoring it very closely.

2 Our Daily Games category is also performing above
3 goal, with Daily 3, Daily 4, and Fantasy 5, all above their
4 individual sales goals.

5 As I reported in March, while Hot Spot sales are a
6 tad under goal, it's still bringing in greater sales this
7 fiscal year than last time -- or last year.

8 That's my update for you today. And I know it's a
9 rather short one, but it's only been about a month and a
10 half since I saw you last. Happy to answer any questions
11 that you might have.

12 **CHAIR GARRISON-ENGBRECHT:** Thank you.

13 **DIRECTOR CHIMA:** Thank you.

14 **CHAIR GARRISON-ENGBRECHT:** The next item on the
15 Agenda is the Consent Calendar. There are no items under the
16 Consent Calendar, so we'll proceed to the Action Items.

17 Before we start with the Action Items, as a
18 reminder, please note that we implemented a new comment card
19 system at our last March Commission Meetings. So, for anyone
20 who would like to provide comment on the Agenda Item or make
21 a public comment at the end of the meeting regarding the
22 issues before the Commission's purview, please have your
23 comment card completed before we get to the Agenda Items.
24 The comment cards are located at the entrance over there and
25 can be handed to Farida on (inaudible). Thank you.

1 The first Action Item is Amendment to Add Funds
2 and Extend Time to LPAS, Inc. Agreement to Support
3 Architectural and Engineering Services presented by Jean
4 Cooper. Good morning, Jean.

5 **DEPUTY DIRECTOR COOPER:** Good morning. Good
6 morning, Commissioners.

7 **COMMISSIONER ALVIDREZ:** Good morning.

8 **DEPUTY DIRECTOR COOPER:** So, this is for Item
9 8(a). This is to request (audio cuts out) plus another year
10 of extension for the term.

11 And as you may recall, in the January 2025
12 Commission Meeting, I came in front of you to communicate
13 that for the Northern Distribution Center remodel project,
14 the state fire marshal provided additional guidance and have
15 the Lottery implement a new fire pump. And so, the team has
16 worked diligently to solidify the requirements, and at this
17 point, it is determined that we need to request the amount
18 that I've just communicated. So, this is for the Life and
19 Safety-related requirements for NDC.

20 So, I'm happy to take any questions if you have
21 any.

22 **CHAIR GARRISON-ENGBRECHT:** Does any member of the
23 public want to address the Commission at this time regarding
24 Action Item 8(a)?

25 Seeing none, do any of the Commissioners have any

1 questions or comments regarding this action item?

2 **COMMISSIONER MILLS:** I have a clarifying question.
3 Thanks for the presentation. Do we believe this is the final
4 amendment and the final cost estimate, or are there other
5 requirements that we're still trying to meet that may
6 require additional costs?

7 **DEPUTY DIRECTOR COOPER:** So, at this point, based
8 on all that the state fire marshal has directed, I believe
9 this is the final.

10 **COMMISSIONER MILLS:** Great. Thank you.

11 **DEPUTY DIRECTOR COOPER:** You're welcome.

12 **CHAIR GARRISON-ENGBRECHT:** Do I hear a motion --
13 thank you, Jean.

14 **DEPUTY DIRECTOR COOPER:** No problem.

15 **CHAIR GARRISON-ENGBRECHT:** Do I hear a motion to
16 approve Action Item 8(a), Amendment to Add Funds to Extend
17 Time to LPAS, Inc. Agreement to Support Architectural and
18 Engineering Services?

19 **COMMISSIONER ALVIDREZ:** Motion to approve.

20 **COMMISSIONER MILLS:** Second.

21 **CHAIR GARRISON-ENGBRECHT:** Will the Secretary
22 please call the roll?

23 **MS. SARWARI:** Commissioner Mills?

24 **COMMISSIONER MILLS:** Yes.

25 **MS. SARWARI:** Commissioner Alvidrez?

1 **COMMISSIONER ALVIDREZ:** Yes.

2 **MS. SARWARI:** Chairman Garrison-Engbrecht?

3 **CHAIR GARRISON-ENGBRECHT:** Yes. Thank you, Jean.

4 **DEPUTY DIRECTOR COOPER:** Thank you.

5 **CHAIR GARRISON-ENGBRECHT:** The next Action Item,
6 Item 8(b), Epicor Maintenance and Operations Contract
7 Amendment, presented by Chris Lopez.

8 **DEPUTY DIRECTOR LOPEZ:** Good morning --

9 **CHAIR GARRISON-ENGBRECHT:** Good morning.

10 **DEPUTY DIRECTOR LOPEZ:** -- Commissioners. For my
11 first Action Item, 8(b), the Lottery is requesting approval
12 to exercise the option to extend our current Epicor
13 Maintenance and Operations Contract term by one year. No
14 additional funds are being requested.

15 The Lottery has used Epicor's Financial and
16 Procurement Management product since 1999. In 2018, the
17 Lottery upgraded to Epicor's enterprise resource planning
18 application suite, known as Epicor 10, and entered into a
19 Maintenance and Operations Support Contract with Epicor at
20 that time. The current contract with Epicor will expire on
21 June 30, 2025.

22 Epicor 10 enables several of the Lottery's core
23 functions, including accounts payable and receivable,
24 procurement management and tracking, asset and cash
25 management, general ledger accounting, and financial

1 reporting.

2 Extending the contract by one year will allow the
3 Lottery to continue to receive support services at the
4 contractual rate of \$180 per hour instead of Epicor's
5 current hourly rate of \$240. It will also provide the
6 Lottery with additional time to negotiate a new long-term
7 contract that will include better terms and service-level
8 agreements to improve vendor performance and accountability.

9 The Lottery recommends the Commission approve the
10 proposed contract amendment to utilize the option to extend
11 of the current Epicor Maintenance and Operations Support
12 Contract. The maximum contract expenditure authority remains
13 at \$484,000, with a new contract expiration date of June 30,
14 2026.

15 And with that, I'm open to any questions the
16 commission may have.

17 **CHAIR GARRISON-ENGBRECHT:** Thank you, Chris.

18 Does any member of the public want to address the
19 commission at this time regarding Action Item 8(b)?

20 Seeing none, do any of the commissioners have
21 questions or comments regarding Action Item 8(b)?

22 Do I hear a motion to approve Action Item 8(b),
23 Epicor Maintenance and Operations Contract Amendment?

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

25 **CHAIR GARRISON-ENGBRECHT:** Second?

1 **COMMISSIONER ALVIDREZ:** Second.

2 **CHAIR GARRISON-ENGBRECHT:** Will the Secretary

3 please call the roll?

4 **MS. SARWARI:** Commissioner Mills?

5 **COMMISSIONER MILLS:** Yes.

6 **MS. SARWARI:** Commissioner Alvidrez?

7 **COMMISSIONER ALVIDREZ:** Yes.

8 **MS. SARWARI:** Chairman Garrison-Engbrecht?

9 **CHAIR GARRISON-ENGBRECHT:** Yes. And, Chris, you're

10 up next. Action Item 8(c), ServiceNow Human Resources

11 Services Center (HRSC) Implementation Services.

12 **DEPUTY DIRECTOR LOPEZ:** All right. Thank you.

13 For this Action Item, the Lottery is requesting

14 commission approval to enter into a contract with Lume

15 Consulting Group for the implementation of additional

16 ServiceNow HR Service Center features and functionality.

17 In fiscal year 21-22, the Lottery's HR Division

18 initiated a major effort to automate and modernize its

19 manual paper-driven processes. In the first phase of this

20 effort, the Lottery acquired implementation services to

21 launch a new HR Service Center portal and automate numerous

22 Human Resources processes, such as Business and Control,

23 Requests for Personal Action, Employee Onboarding and

24 Separations, Ergonomic Evaluations, Reasonable

25 Accommodations, as well as several reports and dashboards,

1 just to name a few.

2 The successful rollout of the Lottery's HR Service
3 Center has resulted in better tracking and reporting, as
4 well as better response times for HR service requests.
5 Benefits from this effort extend well beyond the HR Division
6 as well. Lottery staff now have a single place to go for
7 updates on their submitted tickets and to complete tasks
8 assigned to them more efficiently, saving staff time across
9 all divisions.

10 Phase one and the current implementation services
11 contract are winding down at the end of June of this year.

12 In the second phase of this effort, the Lottery
13 seeks to realize further efficiency gains through the
14 improvement and automation of additional HR services. A new
15 implementation services contract will be used to help
16 complete this work.

17 Implementation Services include process analysis,
18 feature prioritization, business requirements definition,
19 development testing, and training for the delivery of 37
20 additional automated processes.

21 The continued enhancement and expansion of the
22 Lottery's HR Service Center will foster transparency by
23 providing necessary operational controls for tracking and
24 reporting, while also promoting efficiency through
25 digitization and automation.

1 For this new contract, we utilized a leverage
2 procurement agreement, requesting bids from multiple
3 contractors that participate in the technology, digital, and
4 data consulting master services agreement administered by
5 the State's Department of General Services. The best value
6 offer was submitted by Lume Consulting Group.

7 The Lottery recommends the commission approve the
8 contract with Lume Consulting Group to implement additional
9 ServiceNow HR Service Center features of functionality. The
10 maximum contract amount will be \$3.5 million for a two-year
11 term, beginning in June of this year, with two one-year
12 options to extend.

13 And with that, I am open for questions from the
14 commission.

15 **CHAIR GARRISON-ENGBRECHT:** Thank you, Chris.

16 Does any member of the public want to address the
17 commission at this time regarding Action Item 8(c)?

18 Do any of the commissioners have questions or
19 comments on Action Item 8(c)?

20 **COMMISSIONER MILLS:** I do.

21 **CHAIR GARRISON-ENGBRECHT:** Go ahead. Yeah.

22 **COMMISSIONER MILLS:** Thank you for the
23 presentation, and I just want to commend you for this work
24 to automate your HR Systems. You guys have thousands of
25 employees all over California. I have to imagine this is

1 going to have tremendous return on investment with the
2 efficiencies that it will bring, and also will help improve
3 compliance and data tracking, and have all sorts of
4 benefits.

5 And I also want to acknowledge, it's no easy task
6 to convert an HR system in an organization your size. So, I
7 just appreciate the amount of work that's going into this
8 and appreciate the expertise that you're bringing in to help
9 make sure that it's implemented correctly and that we
10 actually get the return on investment from this work.

11 One question I have -- because I remember talking
12 about this early on when I came on the commission --
13 actually, I have two questions. But my first question is, I
14 recall that there were some concerns around interface, maybe
15 with CalHR and our ability to implement, you know,
16 efficiencies within our own HR system, and still be able to
17 interface the way that we need to interface with CalHR. Can
18 you talk a little bit about that?

19 And I just want to ensure that we're not going to
20 lose any of those requirements because I know things also
21 need to also go back and forth with CalHR.

22 **DEPUTY DIRECTOR LOPEZ:** Not that I'm aware of.

23 **COMMISSIONER MILLS:** Okay.

24 **DEPUTY DIRECTOR LOPEZ:** Let's see. If I have to
25 take that away. Let's -- Chris -- if Chris can come and --

1 **COMMISSIONER MILLS:** Of course. Yes.

2 **DEPUTY DIRECTOR LOPEZ:** -- answer that question.

3 **COMMISSIONER MILLS:** Hi, Chris.

4 **DEPUTY DIRECTOR LOPEZ:** Our HR deputy director.

5 **COMMISSIONER MILLS:** I think Chris is who I heard
6 that from.

7 **DEPUTY DIRECTOR FERNANDEZ:** Sounds right. Good
8 morning, commissioner.

9 **DEPUTY DIRECTOR ALVIDREZ:** Good morning.

10 **DEPUTY DIRECTOR FERNANDEZ:** So, right now, the
11 State of California is in the midst of a major payroll
12 system project. They just selected a vendor. There's a lot
13 of unknown for us at Lottery about what the future of the
14 state's payroll system looks like. We're working closely
15 with the state controller's office to be involved in that,
16 and we're very engaged as stakeholders in that.

17 We're working really on our side of the house and
18 --

19 **COMMISSIONER MILLS:** Okay.

20 **DEPUTY DIRECTOR FERNANDEZ:** -- you know, a few
21 years from now -- I think they're currently looking to 2029
22 implementation for the state payroll project, hopefully,
23 we'll be able to integrate at that time.

24 For right now, though, we're really just working
25 on our side of the house. There is plenty of work to be done

1 there in terms of the way we do our timesheets, performance
2 reviews, many Lottery-specific forms, and even some state-
3 specific forms -- standard forms.

4 So, there's lots of room for improvement right now
5 and lots of opportunity for streamlining processes, and like
6 you spoke to, ensuring we have great ways to track things
7 automatically, so that we're compliant.

8 So, lots of benefit, but a few years from now,
9 hopefully, we will be able to look to what the state
10 controller's office has done and start integrating as well.

11 **COMMISSIONER MILLS:** Okay. Great. And so the work
12 that we're doing now should not be impacted by whatever is
13 happening with CalHR, or minimally impacted -- and then,
14 there will be additional opportunity to potentially create
15 even more efficiency once the State of California does their
16 implementation.

17 **DEPUTY DIRECTOR FERNANDEZ:** Correct.

18 **COMMISSIONER MILLS:** Is that it?

19 **DEPUTY DIRECTOR FERNANDEZ:** That's our current
20 understanding. And, you know, the tricky part with this is
21 that we don't know exactly what it will look like once they
22 roll out, but we will have some strong processes built on
23 our side.

24 And we do understand that SCO is very interested
25 in working with departments and integrating all of their HR

1 solutions as well.

2 **COMMISSIONER MILLS:** Okay.

3 **DEPUTY DIRECTOR FERNANDEZ:** So, I don't think that
4 any of the work we're doing will be in vain.

5 **COMMISSIONER MILLS:** Okay. Great. And then, my
6 second question is, will we be able to get rid of these
7 paper timesheets?

8 **DEPUTY DIRECTOR FERNANDEZ:** Paper timesheets? Yes,
9 that is something that is on the to-do list. Yes.

10 **COMMISSIONER MILLS:** That would be awesome. Thank
11 you.

12 **DEPUTY DIRECTOR FERNANDEZ:** Absolutely.

13 **DEPUTY DIRECTOR LOPEZ:** And thank you for the kind
14 comments. I'd say that the Human Resources Division did the
15 bulk of the heavy lifting. They deserve the majority of the
16 credit for the great work that's been done as part of Phase
17 One, and we're looking forward to what we'll do for Phase
18 Two.

19 **COMMISSIONER ALVIDREZ:** So, quick question.

20 **DEPUTY DIRECTOR LOPEZ:** Yes?

21 **COMMISSIONER ALVIDREZ:** And actually, my colleague
22 alluded to it, and that was about future requests.

23 So, I hear Chris say that there is a 2029 kind of
24 State Payroll Project that's already in the queue. I see
25 that this was -- there was a Phase One 2021-22 fiscal year.

1 This is the Phase Two.

2 My question was initially going to be if we
3 anticipate a Phase Three or if we've anticipated what those
4 ongoing maintenance costs will be, but I think what I hear
5 is that there is a potential for an additional presentation
6 as we approach this 2029 piece and some of the state pieces
7 that they're trying to settle that we may also need some
8 additional expenditures, or do you not anticipate that?

9 **DEPUTY DIRECTOR LOPEZ:** At this point, we don't
10 anticipate that we'll need additional resources. We don't
11 know what the degree of change will be and what we'll need
12 to do internally to support whatever the state does with
13 their payroll system, but our current plan is to build out
14 our ServiceNow support capabilities so we can take on the
15 ongoing maintenance of the Phase One work and then take on
16 the maintenance and operations support for the Phase Two
17 work, and then any additional enhancements that are needed
18 to continue to expand and mature our HR Service Center.

19 **COMMISSIONER ALVIDREZ:** So, when you say take on
20 the maintenance, does that mean take it on internally, which
21 means that there is some training that will happen
22 internally so that we can manage these systems --

23 **DEPUTY DIRECTOR LOPEZ:** It's both.

24 **COMMISSIONER ALVIDREZ:** -- without additional
25 (overlapping)?

1 **DEPUTY DIRECTOR LOPEZ:** We're going to staff it
2 with additional staff resources and then provide those with
3 the appropriate training, so they're capable of the ongoing
4 support of --

5 **COMMISSIONER ALVIDREZ:** Uh-huh.

6 **COMMISSIONER LOPEZ:** -- what we've implemented,
7 and to continue to expand and grow it.

8 **COMMISSIONER ALVIDREZ:** Thank you.

9 **DEPUTY DIRECTOR LOPEZ:** You're welcome.

10 **CHAIR GARRISON-ENGBRECHT:** Thank you, Chris.

11 Does any member of the public -- sorry.

12 Do I hear a motion to approve Action Item 8(c),
13 ServiceNow Human Resources Service Center (HRSC)
14 Implementation Services?

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

16 **COMMISSIONER ALVIDREZ:** Second. Sorry.

17 **CHAIR GARRISON-ENGBRECHT:** Will the Secretary
18 please call the roll?

19 **MS. SARWARI:** Commissioner Mills?

20 **COMMISSIONER MILLS:** Yes.

21 **MS. SARWARI:** Commissioner Alvidrez?

22 **COMMISSIONER ALVIDREZ:** Yes.

23 **MS. SARWARI:** Chairman Garrison-Engbrecht?

24 **CHAIR GARRISON-ENGBRECHT:** Yes.

25 All right, Chris. You're going to round us out to

1 home.

2 **DEPUTY DIRECTOR LOPEZ:** All right.

3 **CHAIR GARRISON-ENGBRECHT:** Action Item 8(d),
4 Ratification of Lottery Headquarters Pavilion and Lobby
5 Audio Visual Upgrade Contract.

6 **DEPUTY DIRECTOR LOPEZ:** All right. Thank you.

7 For my last Action Item, the Lottery seeks
8 commission ratification of the telecommunication service
9 request form 20 contract with Mergent Systems, Inc.

10 The Lottery Headquarters Building has an
11 auditorium that includes three separate suites, known as the
12 pavilions, a commission meeting dais, this room here, a
13 lobby with active video displays, and an audio-visual
14 control room in the back of the building.

15 The equipment used for these areas is mostly
16 comprised of the original equipment, installed in 2011. This
17 equipment is outdated, beyond end of life, not compatible
18 with current technology, and has been prone to failure over
19 the past three years. A full redesign and upgrade of this
20 equipment is required to support the operational needs of
21 the Lottery, such as conducting these commission meetings,
22 conducting training sessions, and other events without
23 technical difficulties or even failures.

24 Last month, the director approved the Form 20
25 contract with Mergent and simultaneously notified the chair

1 of the commission, pursuant to Lottery Regulation 8.6.6.A.
2 This was necessary to allow Lottery staff sufficient time to
3 develop and submit the approved Form 20 contract by April
4 30, 2025, in order for Mergent to procure all required
5 equipment in time to begin installation services in July and
6 complete the work prior to the September commission meeting.

7 Mergent was competitively procured, leveraging a
8 State of California Network and Telecommunications Program
9 Contract, also known as CalNet. The Lottery recommends the
10 commission ratify the execution of the Form 20 contract with
11 Mergent, which has a maximum contract expenditure authority
12 of \$849,517.82.

13 And with that, I'm open to questions from the
14 commission.

15 **CHAIR GARRISON-ENGBRECHT:** Thank you.

16 Does any member of the public want to address the
17 commission at this time regarding Action Item 8(d)?

18 Do any of the commissioners have any questions or
19 comments regarding Action Item 8(d)?

20 **COMMISSIONER MILLS:** I have a question. Again,
21 thank you for the presentation. It sounds like this is --
22 these expenditures are a bit overdue --

23 **DEPUTY DIRECTOR LOPEZ:** Long overdue.

24 **COMMISSIONER MILLS:** -- with how old the equipment
25 is in here.

1 The specific question about the -- like, the
2 audio. Like, will the audio be included? Because I find that
3 I do have a very difficult time here. We have a lot of soft
4 speakers at the Lottery, and just the echo in here. And so,
5 I would just ask that you guys, as you're going through this
6 project like, take that into consideration.

7 And I don't -- you know, the speakers or the --
8 something so that it's less of an echo. It makes it -- I
9 feel myself -- like, I'm just constantly leaning in and
10 having to concentrate to hear you all.

11 So, thank you for this project, and I hope that it
12 will have vast improvement to the audio and our ability to
13 hear you all because you're sharing important stuff, and we
14 want to be able to hear every word you're saying.

15 **DEPUTY DIRECTOR LOPEZ:** Perfect. And it will
16 definitely be in scope. And then, even the loud fan that you
17 hear while you're sitting in the back in the dais will be
18 fixed.

19 **COMMISSIONER MILLS:** Fantastic. Oh, I hear it.
20 Yes. Okay.

21 I'm going to move to approve this.

22 **CHAIR GARRISON-ENGBRECHT:** I also want to thank
23 you and the team for also finding that window when we're not
24 in session, and I really appreciate your willingness to work
25 with our schedule and the contractor's schedule to make sure

1 that's not going to impact our regular meeting schedule. So,
2 thank you for your timely request and the efficiency in
3 getting it done. We're excited to have it done.

4 **DEPUTY DIRECTOR LOPEZ:** You're most welcome.

5 **CHAIR GARRISON-ENGBRECHT:** Do I hear a motion to
6 approve Action Item 8(d), Ratification of Lottery
7 Headquarters Pavilion and Lobby Audio Visual Upgrade
8 Contract?

9 **COMMISSIONER MILLS:** I am excited to move to
10 approve.

11 **CHAIR GARRISON-ENGBRECHT:** Do I have a second?

12 **COMMISSIONER ALVIDREZ:** Second.

13 **CHAIR GARRISON-ENGBRECHT:** Will the Secretary
14 please call roll?

15 **MS. SARWARI:** Commissioner Mills?

16 **COMMISSIONER MILLS:** Yes.

17 **MS. SARWARI:** Commissioner Alvidrez?

18 **COMMISSIONER ALVIDREZ:** Yes.

19 **MS. SARWARI:** Chairman Garrison-Engbrecht?

20 **CHAIR GARRISON-ENGBRECHT:** Yes. Thank you, Chris.

21 **DEPUTY DIRECTOR LOPEZ:** All Right. Thank you.

22 **CHAIR GARRISON-ENGBRECHT:** The next Item, Action
23 Item 8(e), Draw Auditing and Review Services Contract
24 Extension, presented by John Lowden.

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

1 **CHAIR GARRISON-ENGBRECHT:** There we go.

2 **COMMISSIONER MILLS:** Yes, thank you, John.

3 **DEPUTY DIRECTOR LOWDEN:** Okay. Item 8(e). The
4 California State Lottery seeks the Lottery's commission and
5 approval to increase the expenditure authority and agreement
6 with Melissa Preston, CPA by exercising its two one-year
7 extension options to ensure continuity of services.

8 The California Government Code requires that all
9 drawings are to be witnessed in person by an independent
10 Lottery contractor. Specifically, the contractor is required
11 to witness the draws via manual or physical selection,
12 participate daily in the observation, verification, and
13 certification of lottery draws, and report compliance with
14 established Lottery draw procedures.

15 Our current contractor, Melissa Preston, CPA,
16 began her services back in July 2022, following a solicited
17 RFP where she was actually the only respondent. But after
18 evaluation, it was determined that her services and her
19 qualifications went above and beyond minimum requirements
20 outlined in that particular RFP. And her rates were deemed
21 to be fair, reasonable, and the best value to the Lottery.

22 The services that they currently provide are
23 unique and have been specifically customized for our
24 specific draws here at the Lottery.

25 The initial contract term was three years, with an

1 expiration date of June 30, 2025, and the contract includes
2 two -- one additional one-year extension options. The terms
3 of the first three years of the contract were based on an
4 hourly rate of \$95 an hour, which amounted to about \$342,000
5 a year maximum. When you combine that for three years, the
6 total contract funding was \$1,026,000.

7 As outlined in the current terms of the existing
8 contract, there is a rate increase to \$98 an hour for years
9 four and five, raising the annual expenditure to \$352,800
10 for each year. If approved, this raises the contract
11 expenditure to a total of \$1,731,600 for both the initial
12 contract and two two-year extension, which is approximately
13 an increase of 3 percent.

14 Lottery staff recommends the commission approve
15 this agreement for draw auditing services by Preston CPA,
16 which extends the contract term for two additional years to
17 June 30, 2027, and increasing the maximum expenditure
18 authority by \$705,600.

19 I hope you heard me, and I'll take any questions.

20 **COMMISSIONER MILLS:** Loud and clear. Thank you,
21 John.

22 **CHAIR GARRISON-ENGBRECHT:** Thank you, John.

23 Does any member of the public wish to address the
24 commission at this time regarding Action Item 8(e)?

25 Do any of the commissioners have any questions or

1 comments regarding this Action Item?

2 **COMMISSIONER MILLS:** I have a question. Thank you,
3 John, for the loud and clear report. I just had a question
4 on the pricing, given that this particular vendor was our
5 only bidder. Can you just say a few words about kind of the
6 process that you all went through to evaluate, you know,
7 kind of best price for the Lottery?

8 **DEPUTY DIRECTOR LOWDEN:** Sure.

9 So, we submitted an RFP back in 2022. Our prior
10 vendor that we were using did not compete for this
11 particular bid for the process.

12 With our standards of competitive bid, the range
13 that's generally recommended to stay within is a 14 percent
14 increase from the previous vendor to the new or existing
15 vendor. Melissa Preston's contract came in at 4.4 percent,
16 so it was well within that 14 percent range. If you add the
17 additional 2 years -- where, in this case, she did add an
18 increase for 4 and 5, we're approximately with 7 percent,
19 still within that range of 14 percent industry recommended
20 for the Lottery.

21 As far as her services go, or the services of the
22 company, and primarily a reason why we want to maintain this
23 particular vendor, is her company provides all of the
24 auditing services for the multimillion -- the muscle draws.
25 I'm sorry. The Mega Millions, Georgia Lottery, and a host of

1 other National states that use lotteries.

2 So, they're well known. We rely upon their
3 personnel. They're very reliable. The Lottery -- the draws
4 are like the Pony Express. We have to have it, you know,
5 every day. We haven't had any issues with this particular
6 company. So, right now, they appear to be the industry
7 leader for lottery draws, which is very unique.

8 So, I hope that answered the question.

9 **COMMISSIONER MILLS:** That does. Did we also kind
10 of compare and contrast to what other states are being
11 charged for similar services?

12 **DEPUTY DIRECTOR LOWDEN:** I do not have that
13 information available of what other states are being
14 charged.

15 **COMMISSIONER MILLS:** Okay.

16 **DEPUTY DIRECTOR LOWDEN:** Yeah.

17 **COMMISSIONER MILLS:** Thank you.

18 **CHAIR GARRISON-ENGBRECHT:** Any additional
19 questions?

20 Do we hear a motion to approve Action Item 8?
21 Sorry. Maybe move up. 8(e), Draw Auditing and Review
22 Services Contract Extension?

23 **COMMISSIONER ALVIDREZ:** Motion to approve.

24 **COMMISSIONER MILLS:** Second.

25 **CHAIR GARRISON-ENGBRECHT:** Will the Secretary

1 please call the roll?

2 **MS. SARWARI:** Commissioner Mills?

3 **COMMISSIONER MILLS:** Yes.

4 **MS. SARWARI:** Commissioner Alvidrez?

5 **COMMISSIONER ALVIDREZ:** Yes.

6 **MS. SARWARI:** Chairman Garrison-Engbrecht?

7 **CHAIR GARRISON-ENGBRECHT:** Yes.

8 **DEPUTY DIRECTOR LOWDEN:** All right. Thank you.

9 **CHAIR GARRISON-ENGBRECHT:** I appreciate it. Very
10 unique service. The next Action Item, 8(f), Silver Star
11 Movers, Inc Bulk Carrier Contract Extension, presented by
12 Sharon Allen.

13 **DEPUTY DIRECTOR ALLEN:** Hi.

14 **CHAIR GARRISON-ENGBRECHT:** Sharon, you're up for
15 three in a row.

16 **DEPUTY DIRECTOR ALLEN:** I know. Well, four, and
17 then another. And I don't know if I can top John. I never
18 have been accused of speaking softly. So, I will try.

19 I have these next three items, and they're all for
20 bulk delivery services, and they have some commonality. So,
21 I'll do a general overview first and then go into each
22 Action Item.

23 The Lottery's two distribution centers use these
24 contracts for shipping Scratchers products and point of sale
25 items to nine Lottery district offices to support the field

1 sales teams, as well as between distribution centers.
2 Typically, these shipments are large, bulk quantities on
3 pallets and shipped via semi-trailers or box trucks. This is
4 different from our small parcel shipments, which are usually
5 a box or a bag, and our Scratchers that are shipped from the
6 distribution center to individual retailers.

7 To meet our retailer needs and avoid out-of-
8 stocks, it's critical that the Lottery have a fast, secure,
9 and reliable bulk shipping method.

10 In 2022, as a result of an IFB, the commission
11 awarded contracts to these three companies to handle these
12 services. The contracts are similarly structured, with an
13 initial term of three years and two one-year options to
14 extend. The initial term is set to expire, and the Lottery
15 is requesting approval to exercise the first option in each
16 of the contracts.

17 The three vendors have provided timely, accurate,
18 and secure services over the life of the contract, while the
19 fixed rate price schedule has provided price stability.

20 That's my overview. If you have any general
21 questions, I can answer those now, or I can go into the
22 first Item.

23 **CHAIR GARRISON-ENGBRECHT:** Thank you --

24 **DEPUTY DIRECTOR ALLEN:** Okay.

25 **CHAIR GARRISON-ENGBRECHT:** -- Sharon.

1 **DEPUTY DIRECTOR ALLEN:** This is Item 8(f), Silver
2 Star Movers Designated Bulk Carrier Services Contract.

3 Silver Star Movers, or Silver Star, provides bulk
4 carrier services between the Southern Distribution Center
5 and the five Southern California district offices. While the
6 needs of each DO vary depending on sales trends and campaign
7 activity, the Lottery has shipped over 420 loads with Silver
8 Star over the past three years, and they have been
9 responsive and timely with scheduling and deliveries.

10 The Lottery estimates the remaining contract
11 expenditure authority of approximately \$231,000 will be
12 sufficient for the extension period. Lottery staff
13 recommends the commission approve a one-year extension to
14 the Silver Star contract for designated bulk delivery
15 services, extending the term to September 14, 2026, and the
16 expenditure authority would remain at \$422,000.

17 I can answer any question on Silver Star.

18 **CHAIR GARRISON-ENGBRECHT:** Does any member of the
19 public want to address the commission regarding Action Item
20 8(f)?

21 Any questions or comments from the commissioners?
22 A little preview.

23 **DEPUTY DIRECTOR ALLEN:** I don't know what to do
24 with that one.

25 **CHAIR GARRISON-ENGBRECHT:** Do we hear a motion to

1 approve Action Item 8(f), Silver Star Movers Incorporated
2 Bulk Carrier Contract?

3 **COMMISSIONER MILLS:** Move to approve.

4 **COMMISSIONER ALVIDREZ:** Second.

5 **CHAIR GARRISON-ENGBRECHT:** Will the Secretary
6 please call the roll?

7 **MS. SARWARI:** Commissioner Mills?

8 **COMMISSIONER MILLS:** Yes.

9 **MS. SARWARI:** Commissioner Alvidrez?

10 **COMMISSIONER ALVIDREZ:** Yes.

11 **MS. SARWARI:** Chairman Garrison-Engbrecht?

12 **CHAIR GARRISON-ENGBRECHT:** Yes.

13 **MS. SARWARI:** Thank you.

14 **CHAIR GARRISON-ENGBRECHT:** And, Sharon, Action
15 Item 8(g), Go-Getters Delivery, Inc. Bulk Carrier Services
16 Contract Extension.

17 **DEPUTY DIRECTOR ALLEN:** All right. Go-Getters
18 provides bulk carrier services between the Northern
19 Distribution Center and the four Northern California
20 district offices. The Lottery has shipped over 170 loads
21 with Go-Getters over the past three years, and they also
22 have been responsive and timely.

23 The remaining contract expenditure authority is
24 approximately \$230,000 and will be sufficient over the one-
25 year extension period.

1 Staff recommends the commission approve a one-year
2 extension to the Go-Getters contract for designated bulk
3 delivery services, extending the term to June 14, 2026, and
4 the expenditure authority will remain at \$320,000.

5 **CHAIR GARRISON-ENGBRECHT:** Does any member of the
6 public want to address the commission at this time regarding
7 Action Item 8(g)?

8 Any questions from the commissioners?

9 Do I hear a motion to approve Action Item 8(g),
10 Go-Getters Delivery Incorporated Bulk Carrier Services
11 Contract Extension?

12 **COMMISSIONER ALVIDREZ:** Motion to approve.

13 **COMMISSIONER MILLS:** Second.

14 **CHAIR GARRISON-ENGBRECHT:** Will the Secretary
15 please call the roll?

16 **MS. SARWARI:** Commissioner Mills?

17 **COMMISSIONER MILLS:** Yes.

18 **MS. SARWARI:** Commissioner Alvidrez?

19 **COMMISSIONER ALVIDREZ:** Yes.

20 **MS. SARWARI:** Chairman Garrison-Engbrecht?

21 **CHAIR GARRISON-ENGBRECHT:** Yes. All right, Sharon.

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

23 **CHAIR GARRISON-ENGBRECHT:** Action Item 8(h),
24 Mytess, I believe I'm saying that right, Delivery Solutions,
25 LLC Bulk Carrier Services Contract Extension.

1 **DEPUTY DIRECTOR ALLEN:** All right. The Lottery
2 contracts with Mytess Delivery Service, or Mytess, to
3 provide bulk delivery services between the Lottery's
4 Northern and Southern California distribution centers.

5 After the initial Scratchers and point of sale
6 allotments, inventories need to be balanced due to varied
7 regional sales demand. Shipments are arranged on an as-
8 needed basis, and the number of pallets in each shipment
9 varies, depending on sales volume and campaign needs, with
10 the total weight of each shipment ranging from 10,000 to
11 90,000 pounds.

12 To date, Mytess has shipped over 80 bulk carrier
13 loads for the Lottery and have provided responsive and
14 timely service. Lottery staff analyzed the current shipment
15 volume and forecasted the number of shipments that will
16 occur during the proposed extension period and determined
17 that the expenditure authority will need an additional
18 \$400,000.

19 Lottery staff recommends the commission approve a
20 one-year contract extension to the Mytess Delivery Solutions
21 contract for bulk delivery services, extending the term to
22 June 21, 2026, and increasing the maximum expenditure
23 authority to \$800,000.

24 And I'd be happy to answer any questions on
25 Mytess.

1 **CHAIR GARRISON-ENGBRECHT:** Any questions from the
2 public? Commissioners?

3 **COMMISSIONER ALVIDREZ:** I have a question.

4 **CHAIR GARRISON-ENGBRECHT:** Go ahead.

5 **COMMISSIONER ALVIDREZ:** So, I have a question
6 about the increase in the expenditure authority of -- out of
7 the two (inaudible) of the original contract for the three-
8 year term. So, why has this gone up for the one-year
9 extension to double it, and then we have an option of
10 exercising a second one-year extension that -- when we're
11 already kind of exceeding the maximum expenditure authority?

12 **DEPUTY DIRECTOR ALLEN:** We are implementing a
13 change in our practice with auto ship, and this is what we
14 do on a monthly basis to ship Scratchers products to almost
15 all of our retailers. Currently, we ship everything out of
16 the northern distribution center across the state.

17 And with the addition of the ancillary shipping
18 contract that you all approved in May, we will be bringing
19 on FedEx to assist with auto ship. And it's more cost-
20 effective for us, based on their zone billing, to ship the
21 auto ship packages that are packed in the north down to the
22 south and to ship them to the northern -- to ship them out
23 of the southern distribution center because they're going to
24 retailers in that region.

25 So, you know, staff did the math, and that is

1 actually more cost-effective than shipping from the north to
2 Southern California-based retailers.

3 **COMMISSIONER ALVIDREZ:** So, then that math will
4 hold true for next year as well?

5 **DEPUTY DIRECTOR ALLEN:** We haven't implemented it
6 yet, so we will look at it over the course of the year and
7 make any adjustments. But as of right now, we anticipate
8 that it will.

9 **COMMISSIONER ALVIDREZ:** And then a question about
10 the fact that we didn't go out to bid for these services
11 because we have a capable vendor in place --

12 **DEPUTY DIRECTOR ALLEN:** Correct.

13 **COMMISSIONER ALVIDREZ:** -- with this company. And
14 so, I appreciate that they're capable, but -- and I
15 appreciate that you've already done the math determining
16 cost-effectiveness, but I'm a little concerned that we
17 didn't kind of open it up to the process we're in the midst
18 of changing something.

19 I think I'm just struggling with the double
20 shipping, the multiple contracts to ship, the movement from
21 north to south to then ship somewhere else. I think I'm
22 struggling with that paradigm. So, I'm going to need a
23 little more --

24 **DEPUTY DIRECTOR ALLEN:** In terms of the three bulk
25 delivery or specific with Mytess?

1 **COMMISSIONER ALVIDREZ:** Specific with --

2 **DEPUTY DIRECTOR ALLEN:** With Mytess?

3 **COMMISSIONER ALVIDREZ:** (Overlapping).

4 **DEPUTY DIRECTOR ALLEN:** Well, as I think you
5 know, we had some challenges with our -- getting our
6 Scratchers products to our retailers on a timely basis
7 and/or adjusting our inventory practices to be more just in
8 time. And so, bringing on our ancillary shipper will allow
9 us to do that.

10 And this contract was already accessible to us,
11 and it was the fast -- you know, it was a quick way for us
12 to get to that solution to bring on that ancillary shipper
13 and get those back into where we were pre-COVID, where we
14 could do just-in-time inventory.

15 We can look at if we need to go out to bid sooner.
16 We need to have some -- you know, we can't be without. So,
17 we could look at if we want to do something sooner or even
18 if we want to exercise the second extension. We are not sure
19 yet. Obviously, we'll see how it goes.

20 And we were also going to talk to Mytess and see
21 if we could get any kind of negotiation on price, given our
22 projected increase in volume.

23 **COMMISSIONER ALVIDREZ:** Uh-huh.

24 **DEPUTY DIRECTOR ALLEN:** So, we'll monitor it.
25 Since we haven't done it yet, we're anticipating this

1 beginning in the next month, and then we can keep track of
2 it.

3 So, this is kind of worst-case scenario in terms
4 of the expenditure authority, and we would only pay for what
5 we actually ship, but we don't want to have to come back to
6 you all for such a small amount or something like that. So,
7 we're based on our projections.

8 **COMMISSIONER ALVIDREZ:** If you would, I would
9 appreciate it.

10 **DEPUTY DIRECTOR ALLEN:** Sure.

11 **COMMISSIONER ALVIDREZ:** If you would, just kind of
12 accelerate that timeline for a kind of monitoring assessment
13 and follow up, only because these contracts around these
14 pieces feel Frankensteined.

15 **DEPUTY DIRECTOR ALLEN:** Well, when we put the --
16 you know, the original bid out, we tried to find one
17 provider who could handle all three of the needs between the
18 DCs and DOs in the north and the south, as well as between
19 the two DOs, and there was not -- or two DCs. There was not
20 one provider who bid on it.

21 So, we had to put this together because these
22 shipping companies are regional and the needs of what
23 happens between what we need to do from the DC to the DO in
24 terms of the size of the trucks is different because our DOs
25 cannot accept deliveries from semi trucks. They're smaller

1 quantities. Whereas, going from the north to the south, we
2 need the larger trucks because of the size.

3 So, unfortunately, the market didn't give us a
4 vendor that could do it all, and that's how we had to put
5 together these regional solutions. It's a lot on shipping,
6 but we'd -- happy to look at the --

7 **COMMISSIONER ALVIDREZ:** It's Frankensteined.

8 **DEPUTY DIRECTOR ALLEN:** -- what we could do
9 (inaudible).

10 **COMMISSIONER ALVIDREZ:** It's Frankensteined.

11 **DEPUTY DIRECTOR ALLEN:** You really got the back
12 story of how -- you know, I think we would all appreciate
13 having one solution. It just didn't exist out there --

14 **COMMISSIONER ALVIDREZ:** And I appreciate --

15 **DEPUTY DIRECTOR ALLEN:** -- for us.

16 **COMMISSIONER ALVIDREZ:** -- that that doesn't
17 exist, especially in a state this size --

18 **DEPUTY DIRECTOR ALLEN:** Yeah.

19 **COMMISSIONER ALVIDREZ:** -- and with the Lottery
20 needs, but the word that I keep defaulting to is the word
21 that you all hear, Frankensteined, and that doesn't
22 necessarily have great connotations. It's troublesome. So,
23 to see a more comprehensive plan would be very helpful to
24 me.

25 **DEPUTY DIRECTOR ALLEN:** Okay. We'll do that.

1 **CHAIR GARRISON-ENGBRECHT:** Thank you, Sharon.

2 Do I have a motion to approve Action Item 8(h),
3 Mytess Delivery Solutions, LLC, Bulk Carrier Services
4 Contract Extension?

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

6 **COMMISSIONER ALVIDREZ:** Second.

7 **CHAIR GARRISON-ENGBRECHT:** Will the Secretary
8 please call the roll?

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

10 **COMMISSIONER MILLS:** Yes.

11 **MS. SARWARI:** Commissioner Alvidrez?

12 **COMMISSIONER ALVIDREZ:** Yes.

13 **MS. SARWARI:** Chairman Garrison-Engbrecht?

14 **CHAIR GARRISON-ENGBRECHT:** Yes.

15 All right. Sharon, we're going to pivot from
16 shipping.

17 **DEPUTY DIRECTOR ALLEN:** I'm not leaving yet.

18 **CHAIR GARRISON-ENGBRECHT:** Action Item 8(i),
19 Firewood Marketing Inc., (doing business as Monks) Contract
20 Extension.

21 **DEPUTY DIRECTOR ALLEN:** Okay. This one is
22 slightly different.

23 The Lottery contracts with Firewood Marketing,
24 otherwise known as Monks, for Hispanic advertising and
25 marketing services. In 2019, the commission awarded Monks a

1 five-year contract for Hispanic advertising and marketing
2 services, with an initial contract expenditure authority of
3 \$30 million and two one-year extension options. In 2024, the
4 Lottery exercised the first option and extended the term by
5 one year.

6 Monks is responsible for assisting the Lottery in
7 overall market analysis, strategy, creative, and media
8 planning for the Lottery's marketing and advertising
9 initiatives towards the Hispanic consumer segment in
10 California. Monks has consistently provided a high level of
11 service and expertise. They work in conjunction with our
12 other agency partners and play an integral role in the
13 Lottery's marketing efforts, including the recent Mega
14 Millions game enhancement campaign and the ongoing
15 Scratchers category repositioning effort.

16 Exercising the extension option will enable the
17 Lottery to continue these essential marketing efforts
18 without interruption. Additionally, the marketing
19 procurement process is complex, lengthy, and places an
20 extraordinary strain on staff resources. While the Lottery
21 could go out to bid, it is not necessary to expend these
22 resources when there is a capable agency partner in place
23 and an option to extend the contract.

24 With approximately \$4.8 million remaining in the
25 expenditure authority for the current term, staff recommends

1 an additional \$3 million will be necessary to carry out
2 planned initiatives, as well as it includes a small
3 contingency for unanticipated activities during the
4 extension period.

5 Staff recommends the commission approve the second
6 one-year extension to the Monks contract for Hispanic
7 advertising and marketing services, extending the term
8 through October 17, 2026, with a maximum authorized contract
9 expenditure authority of \$33 million.

10 Excuse me. With that, I'd be happy to answer any
11 questions.

12 **CHAIR GARRISON-ENGBRECHT:** Does any member of the
13 public want to address the commission at this time regarding
14 Action Item 8(i)?

15 Any commissioner questions?

16 Thank you, Sharon. I think one question that's
17 more just a follow up and not for today, but at a later
18 date, I would love to get an update just on the
19 effectiveness, the assessment that we're doing, and you
20 partner with other members of the executive team to see --
21 I've been able to see the great work that Monks has been
22 able to do, but I would love to see how it started to impact
23 some of the outcomes that we intended -- the perceptions,
24 some of the target audiences that we're looking to market
25 to.

1 **DEPUTY DIRECTOR ALLEN:** Okay. Definitely. And
2 you'll hear a little bit in the business plan --

3 **CHAIR GARRISON-ENGBRECHT:** Perfect.

4 **DEPUTY DIRECTOR ALLEN:** -- about that, too.

5 **CHAIR GARRISON-ENGBRECHT:** Kind of anticipated
6 that.

7 Do I hear a motion to approve Action Item 8(i),
8 Firewood Marketing Inc., Monks, Contract Extension?

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

10 **COMMISSIONER ALVIDREZ:** Second.

11 **CHAIR GARRISON-ENGBRECHT:** Will the Secretary
12 please call the roll?

13 **MS. SARWARI:** Commissioner Mills?

14 **COMMISSIONER MILLS:** Yes.

15 **MS. SARWARI:** Commissioner Alvidrez?

16 **COMMISSIONER ALVIDREZ:** Yes.

17 **MS. SARWARI:** Chairman Garrison-Engbrecht?

18 **CHAIR GARRISON-ENGBRECHT:** Yes. Thank you, Sharon.

19 **DEPUTY DIRECTOR ALLEN:** Thank you.

20 **CHAIR GARRISON-ENGBRECHT:** The next Action Item,
21 8(j), Fiscal Year 2025-2026 Business Plan, presented by Jim
22 Hasegawa.

23 **DEPUTY DIRECTOR HASEGAWA:** Get my water because I
24 have quite a number of slides to go through. Okay.

25 Good morning, Chairman Garrison-Engbrecht,

1 commissioners, and Director Chima. It's my honor to present
2 the Agenda Item 8(j), which is the proposed business plan
3 for fiscal year 2025-26 for your review. This plan is the
4 work of hundreds of people across all divisions of the
5 Lottery.

6 So, let me provide an outline of what you'll see
7 during this presentation. At the very beginning in the early
8 sections, I'll provide some overall highlights from our
9 current year, as well as a few insights from -- a look at
10 broader trends across consumers, retailing, and the business
11 world in general. This helps provide some background for the
12 plan and also provided us background in developing not only
13 the plan, but also the sales goal.

14 Then I'll move through each of the six business
15 plan objectives, first, providing some data and information
16 to show how that objective came to be. In other words, you
17 know, why it's important for the Lottery's success in
18 achieving its mission.

19 And then I will finish each section by sharing the
20 programs and tactics planned for the upcoming fiscal year to
21 help us attain this objective.

22 And while there are 40 slides in this presentation
23 (inaudible), I will try to keep a good pace, while at the
24 same time still providing, you know, important details.

25 First off, let's look at current sales. So, this

1 is the sales history of the Lottery in terms of across all
2 of our products. And the current fiscal year is on pace to
3 exceed \$9 billion, and that would mark the third consecutive
4 year.

5 You can see that sales over the past several years
6 are dramatically higher than sales in the earlier period for
7 the Lottery. All importantly, the contributions to education
8 will very likely be above the \$2 billion mark for the fourth
9 year in a row.

10 From the Lottery's tracking study, I'm sharing the
11 figures on playership. So, this shows that in the current --
12 in calendar year 2024, about 7 in 10 California adults have
13 played at least one Lottery game in the past 12 months. And
14 while this is similar to the prior year's incidence, it
15 still remains at record highs.

16 Switching now to some general information from
17 other business sectors, as you've probably seen or heard in
18 the news, there have been many indicators of declines in
19 consumer spending, as people have become cautious in 2024
20 and 2025 due to rising costs and concerns about the economy.
21 Let me provide a couple of examples.

22 Data from the Las Vegas Convention and Visitors
23 Authority for the most recent months available, in January,
24 February, and March 2025, shows that the number of visitors
25 to Las Vegas has declined by 1 percent, 12 percent, and 8

1 percent respectively, when compared against the figures for
2 the same month but in 2024. And in those same three months,
3 the gaming revenue on The Strip also declined in two of
4 those three months.

5 Additionally, as reported in USA Today and lots of
6 other news outlets, McDonald's saw a 3.6 percent same-store
7 sales in the first quarter -- they saw same-store sales drop
8 in the first quarter of 2025 by 3.6 percent.

9 Additionally, there have been reports about other
10 fast food and casual dining chains closing many locations
11 throughout the nation.

12 Once a year we, the Lottery -- we conduct a
13 special survey of California adults, kind of to act as a
14 consumer pulse on consumer attitudes and behaviors on a
15 variety of topics that's relevant for developing the plan
16 and sales goal.

17 So, in the March 2025 edition, we continue to see
18 consumer sentiment as very concerned about the cost of
19 living, with just 34 percent feeling that the worst of
20 inflation is behind us. Also, about 50 percent are feeling
21 less financially secure than they did a year ago.

22 However, with the same survey, there are
23 indications that, you know, consumers were a little less
24 pessimistic this year than responses we saw in 2024. For
25 example, a slightly higher percentage feel that the worst of

1 inflation is behind us and prices will start stabilizing. As
2 you can see there, it was 30 percent a year ago. It's
3 (inaudible) 30 percent. Now people feel a little more
4 positive, and 34 percent feel the worst of inflation is
5 behind us, and prices will start stabilizing.

6 Additionally, more consumers now feel it's
7 important to incorporate fun, entertainment, and distraction
8 into their lives than they did a year ago. In the questions
9 on their future spending across a variety of items, slightly
10 more consumers felt that they would spend more on Lottery
11 tickets and dining out in the next six months, compared to
12 the same percentages from the study a year ago.

13 Now, through the extensive review of industry
14 trends, consumer trends, you know, business trends, Lottery
15 program, and product reviews, these are the six objectives
16 that were developed for fiscal year 2025-26. And I'll be
17 going through each of them, so I'm not going to read the
18 slide.

19 All right. So, the first objective has its origins
20 in our strategic plan and was part of the current year's
21 business plan objectives, however, it has been slightly
22 tweaked to no longer just specify jackpot games and Hot
23 Spot, and that's why it says to continue to grow draw game
24 sales, meaning looking at the whole category of draw games.

25 Now this objective is essential because draw games

1 have better profit margins than Scratchers, and what that
2 means is by growing sales of these games, more dollars and a
3 higher percentage of those dollars can be provided to
4 California Public Education.

5 For example, in the most current year, we have
6 seen draw game sales making up just 23 percent of our sales.
7 However, it makes up 40 percent of our estimated profits.
8 And as you can see, even with fewer big jackpots in the
9 current fiscal year, draw games are an extremely important
10 part of our portfolio.

11 Now switching gears to looking at the sales
12 performance of our jackpot games in particular. This past
13 fiscal year, as you've heard in prior director sales updates
14 through the many commission meetings, this year has seen
15 slower jackpot game sales due to fewer big jackpots.

16 As you can see, this fiscal year, we will only
17 have two draws where the jackpot was a billion dollars or
18 more, and this compares to 13 of such occurrences last year.
19 As such, jackpot game sales will go from over \$1.86 billion
20 in last fiscal year to an estimated \$1.22 billion in this
21 fiscal year.

22 Now, you can also see on this chart that the last
23 time we only had two \$1 billion-plus jackpots was back in
24 fiscal year 2018-2019. And sales from our jackpot games was
25 much higher back then, at over \$1.52 billion. But I want to

1 point out that back then, that fiscal year, it marked only
2 the second time that we had ever seen a billion-dollar
3 jackpot. So, there was significant jackpot fever from the
4 novelty of a billion-dollar jackpot.

5 Just for instance, the very first time was back in
6 fiscal 2015-16, so back then, people weren't used to the
7 cadence of seeing them very frequent, so they were really
8 novel, and people and the press really gravitated to all
9 that excitement.

10 This slide also helps illustrate the fact -- this
11 marks the -- this chart shows for draws of jackpots between
12 \$1.3 billion and \$1.4 billion, what the sales were. So, the
13 first time we saw such a jackpot of this size was back in
14 2023, and we had sales of just under \$50 million, just for
15 that one draw. And during that period, we had over 800
16 unique press stories covering that.

17 However, the last time we saw a jackpot of this
18 size, early last year --

19 **CHAIR GARRISON-ENGBRECHT:** Jim, one second. I
20 think we have a question.

21 **DEPUTY DIRECTOR HASEGAWA:** Pardon?

22 **COMMISSIONER MILLS:** Sorry. Can we ask questions a
23 little bit as we go because it's hard to remember when you
24 get like, 45 minutes later.

25 **DEPUTY DIRECTOR HASEGAWA:** Yeah.

1 **COMMISSIONER MILLS:** So, on -- if you can go one
2 back. I think this is a quick question.

3 Weren't there regulatory changes to one or more of
4 the jackpot games that enhanced the game in a way that would
5 result -- resulted in higher jackpots? Am I remembering that
6 correctly?

7 **DEPUTY DIRECTOR HASEGAWA:** Well, the most recent
8 change was really just -- it wasn't a change to the game
9 itself. It was just adding a draw to PowerBall.

10 **COMMISSIONER MILLS:** Okay.

11 **DEPUTY DIRECTOR HASEGAWA:** (Inaudible).

12 **COMMISSIONER MILLS:** But there was a change to --

13 **DEPUTY DIRECTOR HASEGAWA:** Mega Millions had a one
14 -- change to \$2.00, but that was probably like what, 2017?

15 **DEPUTY DIRECTOR HASEGAWA:** Yeah, 2017.

16 **COMMISSIONER MILLS:** Okay. Then maybe
17 (overlapping).

18 **DEPUTY DIRECTOR HASEGAWA:** So, most of this period
19 on this chart, we've had the same game design. As we talked
20 about last -- a year ago, due to changes in things like
21 interest rates and therefore the annuity factor that helped
22 generate larger jackpots. Additionally, we had very -- you
23 know, strong or very fortunate roll over luck.

24 **COMMISSIONER MILLS:** Okay.

25 **DEPUTY DIRECTOR HASEGAWA:** So, we were kind of

1 running on the tail end of that probability curve.

2 **COMMISSIONER MILLS:** Okay. So, just so I'm clear,
3 there have not been any changes to any of the draw games in
4 the last year that were intended to help increase the
5 jackpots?

6 **DEPUTY DIRECTOR HASEGAWA:** No. Mega Millions just
7 changed.

8 **DIRECTOR CHIMA:** Mega Millions just changed --

9 **DEPUTY DIRECTOR HASEGAWA:** In April.

10 **DIRECTOR CHIMA:** -- and we had our first jackpot
11 with the new game -- or the first drawings of the new game
12 in April.

13 **COMMISSIONER MILLS:** Got it. Okay.

14 **DIRECTOR CHIMA:** And that was --

15 **COMMISSIONER MILLS:** Mega -- okay.

16 **DIRECTOR CHIMA:** -- the intent of that.

17 **COMMISSIONER MILLS:** Like, am I losing my mind?
18 Okay.

19 **DIRECTOR CHIMA:** Yeah.

20 **COMMISSIONER MILLS:** So, Mega Millions did change.

21 **DIRECTOR CHIMA:** Yes.

22 **COMMISSIONER MILLS:** It just changed.

23 **DIRECTOR CHIMA:** Correct.

24 **DEPUTY DIRECTOR HASEGAWA:** It just changed --

25 **COMMISSIONER MILLS:** Okay.

1 **DEPUTY DIRECTOR HASEGAWA:** -- but in April, so.

2 **COMMISSIONER MILLS:** Because my question was going
3 to be, like, how is that factored into 2025 estimates? Is it
4 factored in -- that change and the expected impact?

5 **DEPUTY DIRECTOR HASEGAWA:** The rest of this fiscal
6 year only has a few more months. The jackpot is at \$110
7 million, I believe, right now. And so, it really -- there
8 aren't enough draws to get it to an amount that will be
9 really that large during the --

10 **COMMISSIONER MILLS:** Oh, I see.

11 **DEPUTY DIRECTOR HASEGAWA:** -- fiscal year.

12 **COMMISSIONER MILLS:** This isn't showing me what
13 we're budgeting or estimating for --

14 **DEPUTY DIRECTOR HASEGAWA:** No.

15 **COMMISSIONER MILLS:** -- 2026. It's just telling me
16 2025.

17 **DEPUTY DIRECTOR HASEGAWA:** Right. I'm only going
18 through the past. I will talk a little bit about that issue,
19 but I haven't gotten to that slide yet.

20 **COMMISSIONER MILLS:** Do we have the estimates for
21 2026?

22 **DEPUTY DIRECTOR HASEGAWA:** We don't have -- we
23 have sales goals, but the goal cannot really factor in what
24 actually has occurred because we only have had, you know,
25 one month's worth of draws, and they've all been at lower

1 levels. Most of them have been below \$100 million. So, we
2 only see the effect at these very low jackpots. We really
3 need to see how consumers respond at moderate and larger
4 jackpots to really get a good handle on, you know, how the
5 game has performed in order to come up with a really, you
6 know, more precise goal for our estimate for next fiscal
7 year.

8 **COMMISSIONER MILLS:** Oh, okay. So, the budget
9 isn't going to include an estimate, or?

10 **DEPUTY DIRECTOR HASEGAWA:** The budget -- what the
11 budget does if you want to -- what we've done is we've
12 looked at what -- jackpot fatigue, which was the slide I was
13 on to get to --

14 **COMMISSIONER MILLS:** Yeah.

15 **DEPUTY DIRECTOR HASEGAWA:** -- and showing how
16 jackpot fatigue has been occurring. So, we factored in the
17 most recent jackpot fatigue, but then we've only increased
18 it by 20 -- Mega Millions by 20 percent. That is what --
19 Nationwide in the very first draws we've seen.

20 It's also based on the finance committee of the
21 consortium. After looking at the consumer research we did on
22 this new game, that was an estimate they came up with, you
23 know, a while ago. And that's how we came up with the goal
24 that Nick will be presenting for Mega Millions.

25 **COMMISSIONER MILLS:** Okay. It would just be

1 helpful to see -- like, when you're showing trends like this
2 and then you're going to bring a budget forward to show,
3 like, what the assumptions are for 2026 so we can see that
4 trend, so --

5 **DEPUTY DIRECTOR HASEGAWA:** Yeah, I just haven't --

6 **COMMISSIONER MILLS:** -- (overlapping) look at
7 that.

8 **DEPUTY DIRECTOR HASEGAWA:** -- gotten to that yet.
9 This is the past still.

10 **COMMISSIONER MILLS:** Okay. It would be helpful to
11 see the past and what you're projecting altogether. Like, if
12 I could -- like, add a bar there that showed what you were
13 projecting for 2026. That's all I'm saying. But please
14 proceed.

15 **DEPUTY DIRECTOR HASEGAWA:** All right. Let's see.
16 So, as I was talking about in terms of the comparisons
17 between the jackpot fatigue in terms of impacting sales, and
18 also it's a result of the less press coverage. So, the last
19 time we saw a jackpot of this size early this fiscal year,
20 sales were down to \$30 million, as you can see by the bar on
21 the right. And that was based on about only 500 unique press
22 stories, down about 300 press stories from the prior
23 jackpot.

24 So, the enhanced Mega Millions game started on
25 April 5, with its first drawing on April 8, with most

1 jackpots being under \$100 million. You know, as such, there
2 haven't been that many draws, plus all the draws were at
3 very low levels, such that there's really not enough data to
4 provide an estimate how much sales lift the game will
5 actually experience over the course of the following fiscal
6 year.

7 However, as I mentioned, the -- with the first
8 eight draws, nationwide sales were up 21 percent, versus
9 comparable jackpots of, again, smaller jackpots. And so,
10 what we have done in terms of calculating the numbers for
11 the finance group is looking at the jackpot fatigue that
12 I've already explained and applying that to next year --
13 what that would do to Mega Millions -- and then increasing
14 it by 20 percent. And that's how the goal was developed.

15 Okay. The other thing I wanted to mention about
16 the new game is with this new design, there have been bigger
17 winnings at the non-jackpot prize levels because of the
18 multiplier. A randomly determined multiplier is included on
19 each set of numbers purchased by the player -- a 2X, a 3X,
20 4X, 5X, or 10X the prize. Now, the higher prize amounts
21 appear at levels below the jackpot. Let me provide a couple
22 examples.

23 Over 100,000 California winners in the first three
24 weeks matched just the mega number, and they won between \$10
25 and \$50 with the multiplier, compared to they would have

1 just won just \$2 in the old version. At the next prize
2 level, the one plus the mega -- matching one number plus the
3 mega -- we had over 45,000 winners in California across the
4 first eight draws and -- first three weeks. Excuse me. Not
5 the first eight draws -- first three weeks. And they won
6 between \$14 and \$70, instead of the old \$3 or \$4 in the
7 prior version.

8 One of the things that also we'll be watching for
9 is that because of these higher amounts, we do believe over
10 the long haul it will help the game kind of increase sales
11 and stabilize -- maybe not have as much fatigue that we see
12 in the game -- because people are winning substantially
13 larger amounts -- potentially significant amounts at these
14 lower levels -- at these lower, non-jackpot prizes.

15 Now, nationally through the draw on May 6, there
16 were 1.8 million winners, receiving about -- in total, \$51.3
17 million from the non-jackpot prizes, versus the \$12.5
18 million that would have been won in the old game.

19 Now, in other states, these prizes below the
20 jackpot are fixed prizes, whereas in California, they're
21 pari-mutuel. So, this may not be the exact percentage
22 increase or the exact multiplying effect, but in the
23 national scope of things, the multiplier increased the prize
24 winnings more than four times the amount that they would've
25 been won under the older game.

1 Okay. So, in terms of the tactics for 25-26, while
2 we'll continue to communicate the jackpots for the
3 multistate games like Powerball and Mega Millions, the focus
4 for new tactics under this objective will be shifting. With
5 the Mega Millions enhancements behind us, we will be
6 exploring what's next for our own draw games -- you know,
7 like Super Lotto Plus, Hot Spot, the Daily Games.

8 We'll be assessing, you know, various ideas,
9 various potential enhancements, to determine what will get
10 us the most sales for the least amount of resources required
11 to implement that -- also, in what timeframe. And all of
12 those factors will be, you know, kind of weighed.

13 And by the end of the upcoming fiscal year, we aim
14 to have a multiyear roadmap, developed with very specific
15 tactics that we'll evaluate and prioritize. So, that way,
16 we'll have a roadmap of multiple years of what we can see
17 coming from the other draw games.

18 Just to give you an idea as -- of what are some of
19 the things people internally are thinking about -- not
20 saying we're doing these specifically next year, but, for
21 example, for Super Lotto Plus, it hasn't had any
22 modifications since the year 2000. So, one option that's
23 under consideration is adding additional draw days, much
24 like Powerball did.

25 For Hot Spot, we plan to create a program for

1 ongoing, kind of periodic promotions to help boost sales,
2 and there is funds available, given the changes to the price
3 structure that were implemented last fiscal year. And for
4 Daily Games, we are exploring potentially shifting or adding
5 draws within the day.

6 The second objective is also rooted in our
7 strategic plan. To grow our sales very responsibly, we are
8 focused on increasing play among light or infrequent
9 players, as well as growing playership, rather than growing
10 sales by getting those already playing often and/or buying
11 the higher price points to spend more.

12 So, at the start of this effort, we had to
13 understand the reasons why California adults didn't play
14 Scratchers or why they play only a few times a year. The
15 original research found these key factors that inhibited
16 play:

17 One, the perception that Lottery games are just --
18 you know, are just gambling without the entertainment value.
19 Two, a lack of full trust in the Lottery as an organization.
20 And three, the experience to select and buy tickets.

21 You know, each acted as a barrier inhibiting
22 Scratchers play. And then, strategies were developed around
23 each of these insights.

24 The first one I'm going to talk about is the
25 Scratchers category repositioning efforts. Since 2021, the

1 Lottery's marketing effort has focused on breaking down the
2 perceptual barriers by repositioning Scratchers as a simple
3 form of fun, something that can add a little play to your
4 day. And these efforts, which include advertising campaigns,
5 promotions, and strategic Scratchers game launches, have
6 proven effective at moving the needle.

7 As you can see from this table in front of you,
8 specifically, more Californians feel playing the Lottery is
9 fun, and fewer people feel guilty about spending money on
10 Scratchers, and all of this data comes from the tracking
11 study.

12 Even more impressive is the Scratchers playership
13 figures. They're at all all-time high. So, even without the
14 halo effect of many high jackpots, this fiscal year we have
15 high Scratchers sales -- high Scratchers past year
16 playership. It remains above 50 percent for California
17 adults, and past month playership is up to 40 percent of
18 California adults. And this is significantly higher, as you
19 can see on the chart above than in the -- before the
20 pandemic started and before the repositioning efforts began.

21 And these lifts and perceptions have been seen not
22 only in the general market but total California adult market
23 on this chart, but also in just the Hispanic market, kind of
24 talking about some of the things that -- from the
25 advertising agency contract extension that was just

1 discussed.

2 I would like to take a moment and share some data
3 and insights about the sales performance of Scratchers over
4 the past year and one half. Okay. This chart shows year-
5 over-year Scratchers sales change by week starting in
6 January 2024. So, we compare that week's sales with the same
7 week in the prior year.

8 And you can see that for most of 2024, Scratchers
9 sales were very soft -- typically, lower than the same week
10 in the prior year, likely due to inflation, resulting in
11 consumers reducing their discretionary spending.

12 Only starting in September did we start seeing
13 some small gains over the prior year. This had us initially
14 feeling that the effects of inflation may still continue to
15 negatively impact sales in the upcoming fiscal year, because
16 we really weren't seeing much of a bounce.

17 So, even with a few weeks in February showing
18 promising year-over-year gains, there still were not very
19 many weeks of this type of data before we needed to provide
20 Finance with a preliminary sales goal for the upcoming
21 fiscal year.

22 Now, you can see the later data. You know, sales
23 in March and April have continued to trend positively, but
24 this momentum was not factored into the original sales goal
25 to Finance, which Nick will present later today.

1 The launch of the new \$40 game and the
2 anniversary-themed products provided this positive sales
3 momentum. It shows promise that some products and some
4 certain marketing strategies could still counter some of the
5 inflationary pullbacks by consumers. And I'll provide some
6 additional data on the launch of the \$40 price point when we
7 discuss the objective about the 40th Anniversary.

8 A similar insight can be drawn here when looking
9 at weekly Scratchers sales by quarter. So, this chart shows
10 the average weekly sales per quarter, going all the way back
11 into 2021.

12 So, in 2021, Scratchers sales were at historic
13 highs, then they started dropping in 2022 as other
14 entertainment options returned after the pandemic. But,
15 however, the most recent quarter, January, February, and
16 March of 2025, showed strong sales again. It shows average
17 weekly Scratchers sales of over \$139 million per week, and
18 that's our highest average weekly sales in history.

19 There is one last set of sales information to
20 provide the commission with some background for this
21 business plan objective, as well as for the development of
22 the Scratchers sales goal. Previously, we have presented how
23 higher price points have been comprising a larger and larger
24 share of Scratchers sales.

25 The chart on this slide goes back to July 2020 and

1 shows how the \$10 games combined, which are in red, have the
2 biggest share of any price point. However, by January 2021,
3 \$20 games combined had the largest sales of any of our price
4 points. This continued for several years, but, perhaps due
5 to inflation and rising consumer caution when it comes to
6 discretionary spending, you can see that in the last six
7 months of calendar year 2024, the \$10 games returned as the
8 top selling game, and \$20 game sales declined. And, again,
9 this was another -- and this occurred prior to the launch of
10 the \$40 game -- the decline in the \$20 game sales.

11 So, this was another factor that led to such a
12 conservative Scratchers sales goal.

13 Our 2nd Chance program is another essential tool
14 for providing engaging experiences for our players, to
15 encourage loyalty and positive perceptions. Last year, when
16 The Big Spin Scratchers game was launched, we offered a
17 Play-For-Fun digital experience that offered players the
18 chance to spin a digital wheel for more entries into -- for
19 their 2nd Chance drawing. Player surveys afterwards showed
20 that the experience was one of the top reasons for
21 purchasing the game, and many said they wanted the Lottery
22 to do more promotional experiences like that in the future.

23 Even more importantly, 50 percent of players who
24 participated in these, in this fun 2nd Chance digital
25 experience, said they were more likely to purchase

1 Scratchers after participating in the experience.

2 So, as always, a key component of our business
3 plan and this objective is our Scratchers Product Plan. For
4 next fiscal year, we plan on launching 53 games, same as
5 this year. We will have one more \$10 game launched and one
6 less \$1 game. Just as we did this current fiscal year, we
7 also plan to launch one \$25 and one \$40 game.

8 Of the 53 games launched next year, more than a
9 majority will be comprised of either the \$2, \$5, or \$10
10 tickets. Included in this mix will be several licensed
11 properties, as well as other Lottery brands. For example, a
12 Hot Spot Scratcher ticket was introduced in late February of
13 this year -- in 2025. It included a free Hot Spot play as a
14 prize in the Scratchers ticket. Similar to this, we plan to
15 use other Lottery game brands as a Scratchers ticket to kind
16 of encourage cross-play across our many products.

17 Other tactics under this objective include the
18 continuation of the Scratchers Category Repositioning
19 Efforts, using more digital 2nd Chance experiences to engage
20 Scratcher players and the launching of a pilot program with
21 100 self-service machines that accept cashless payments,
22 which will begin to break down one of the difficulties in
23 purchasing a tickets our players have told us because you
24 have to buy them with cash and many people don't carry cash
25 on them.

1 In terms of this last item, a cross-division
2 project team was formed to investigate issues and will
3 continue as this initiative will move into the
4 implementation phase this coming fiscal year. This pilot
5 will need to use the latest model of self-service machines,
6 the GT28s, and these are typically located in supermarkets.

7 As stated earlier, another key barrier to playing
8 the Lottery is lack -- the lack of total trust in the
9 Lottery overall. So, one of our objectives for next fiscal
10 year is to continue to improve knowledge and perceptions
11 about the Lottery. Our research has shown that the Lottery's
12 story matters to people's perceptions of us as an
13 organization and of our games.

14 Eighty-three percent of Millennials prefer brands
15 that align with their values and over half of California
16 adults say it's important to buy from businesses that
17 support the local community. This is where the Lottery plans
18 to continue to lean in, as you're probably -- a Lottery
19 perception study conducted last year showed that
20 Californians who know of the Lottery's economic impact to
21 the State of California have more positive perceptions and
22 better trust in the Lottery.

23 So, we need to keep telling the story of how we
24 support the community through our mission, our -- the player
25 prizes, and retailer commissions all go into supporting the

1 local community.

2 Now, so far, efforts to improve perceptions and
3 educate Californians on the Lottery's beneficiaries have
4 worked, but we are still hovering around one-third of
5 Californians agreeing that playing Lottery games helps
6 schools and education. So, there is room for improvement.

7 As shared with the commission last year, the
8 Public Affairs Communication Unit has worked with the public
9 relations agency to develop and promote a campaign focused
10 on the Lottery's mission.

11 And as we shared then, efforts started on a
12 smaller scale, such as shifting focus of press releases and
13 press conferences on high jackpot wins to also talk about
14 the contributions to education that were generated and the
15 impact that the significant retail bonus would make on the
16 store in the local community.

17 So, analysis of the pilot back in 2024 showed that
18 the areas that received full support -- that included paid
19 media -- had statistically significant growth in beneficiary
20 awareness -- so, growing from 31 percent to 41 percent in
21 the Fresno and San Diego areas that were the test markets.
22 And they have maintained these higher levels as they've
23 continued to receive ongoing support.

24 With the progress we've seen from the recent
25 tactics and understanding that improving trust takes time,

1 in the coming fiscal year, the Lottery plans to continue the
2 mission campaign by promoting our impact to education
3 through authentic storytelling, as you saw some of those at
4 a prior commission meeting.

5 Taking learnings from the past year, we also aim
6 to continue to optimize our reach to ensure that the stories
7 are most relevant to the people seeing them. This will help
8 break down skepticism, ensure we are telling these stories
9 at the right time and at the right place.

10 And we'll also continue to utilize kind of key
11 media opportunities like high jackpot wins and our 40th
12 Anniversary to organically share the Lottery's mission and
13 contributions to the community.

14 The fourth objective is centered around expanding
15 our network and leveraging the Lottery's strong retail
16 asset. So, the strong recruitment efforts over the past few
17 years have built up the number of Lottery retailers. A dip
18 occurred in late 2020-early 2021 from business closures
19 caused by the pandemic. But, however, now, we have more
20 retailers than the levels seen prior to the pandemic. So,
21 we've not only made up the -- for all those closures that
22 occurred, we're now higher than that pre-pandemic level.

23 But it's more than just the numbers. This
24 objective also aims to try to expand the types of retailers
25 that we sell in. Now, for example, this year, the Lottery

1 started selling in the first Gelson's Rove Recharge
2 location. Now, Gelson's is a very premium supermarket in
3 Southern California, and they have launched a smaller, kind
4 of fresh market, with many prepared foods-type of location,
5 but that also includes 40 EV recharging stations. So, it's a
6 totally new type of trades channel. And they are building
7 additional locations, and we'll begin selling in those
8 stores during the upcoming year as well.

9 Another example of a new type of retail store that
10 will be part of the Lottery's expansion efforts is the
11 Amazon Fresh stores. While it is a grocery store, it really
12 does differ from other supermarkets, kind of in the consumer
13 shopping experience.

14 So, for example, at Amazon Fresh, customers can
15 elect to utilize what they call a Dash Card, where you sign
16 into your card on the -- sign into your account on the card.
17 The card helps you locate items that are on your list. You
18 can scan items -- you scan items when you put them in your
19 cart. It then creates a running total for you just to stay
20 within your budget. And then, you skip a checkout line. All
21 you do is simply exit through the designated lane and you're
22 -- you'll be charged based on the card that's in your
23 account.

24 So, again, very different type of location that
25 we're also expanding. So, we're really trying to expand the

1 types of places we're (inaudible). And these are just some
2 examples that the Key Accounts Team is working on.

3 To increase the visibility of Lottery at larger
4 retailers, a pilot of digital menu boards that will have a
5 98-inch display is in the stages of development for the
6 upcoming fiscal year. These boards can visibly show jackpot
7 amounts, as shown in the display picture. It can display
8 which Scratchier games can be purchased, and more. And
9 really, it's designed to grab the attention of the casual
10 player. Because, you know, people who play the Lottery every
11 time kind of know what to look for or know where to find
12 things. This is very intrusive, so the casual player will
13 notice things about Lottery.

14 Another example of a test is a digital playcenter,
15 and you can see that picture as well. While most retailers
16 have a playcenter for draw game play slips and Lottery
17 information, this -- instead of a static poster that's on a
18 traditional playcenter, these will be outfitted with a
19 digital display, providing greater engagement and allowing
20 for more types of information. Rather than one poster, it
21 can have a rotating display to again, not only engage, but
22 also provide more and better information to the consumer.

23 This next objective, while new to this fiscal
24 year, is not new to the Lottery. Several years ago, focusing
25 and improving on the customer experience was a business

1 objective. At that time, this objective led to many key
2 initiatives, such as making it possible for players to cash
3 winnings up to \$1,000 at Lottery district offices, improving
4 the public website to have a responsive design, so it could
5 be viewed more easily through a smartphone, enhancing
6 retailer services, such as introducing a secure retailer web
7 portal so that the retailer can view their financial
8 information. These are all programs and things that are
9 parts of ongoing Lottery business, but they were new many
10 years ago, spawned by this type of objective.

11 So, now, it's time for a new generation of such
12 tactics, and that's because being a customer-experienced
13 leader is a proven strategy that sets businesses apart. From
14 this slide, you can see that companies that focus on CX --
15 as what customer experience is called -- are more than --
16 are three times more likely to meet their financial targets
17 and be viewed as a great place to work.

18 Additionally, when companies improve brand
19 reputation and CX together, which the Lottery we're doing,
20 they are more likely to have an even greater revenue impact.
21 Positive customer experiences reinforce the brand messaging
22 that the consumers hear.

23 Our strategic objective incorporates more than
24 just our players as customers, and this is a really critical
25 point. By customer, we also mean our retailers and our

1 internal customers -- our fellow Lottery employees and
2 colleagues.

3 All three customer experiences will be considered
4 under this objective for the next fiscal year.

5 From last year's retailer satisfaction survey,
6 three-quarters of retailers are at least fairly satisfied
7 with their overall Lottery relationship, and it was up three
8 percentage points versus 2023. However, the customer
9 experience for our retailers still has some room to grow.

10 From a recent Lottery brand study, about 40
11 percent of California adults are at least somewhat satisfied
12 with their experiences interacting with the Lottery.
13 Research this past year showed that people respect the
14 Lottery's economic impact on California, but quality of
15 customer service was a lower-rated attribute, and,
16 unfortunately, that research didn't indicate what specific
17 aspects of customer service were lacking.

18 So, we are currently conducting more research to
19 dig deeper, looking at dozens of potential touch points with
20 consumers to determine the pain points in the Lottery's
21 customer experience. And that way, we can focus on those
22 pain points to deliver better satisfaction.

23 From an employee perspective, the most recent
24 employee engagement survey in 2024 showed an overall
25 improvement in metrics by 4 percent over 2020 results. Since

1 that time, the Lottery has developed and rolled out its
2 Mission, Vision, Values Program. It monthly spotlights for
3 staff to share how their work contributes to the Lottery
4 mission and help break down communication silos.

5 We've also developed and conducted more informal
6 recognition efforts and leadership trainings, all with the
7 goal to improve our employees' engagement and work
8 experience and promote a stronger team spirit.

9 As with the consumers that I just talked about,
10 additional research is being conducted among employees that
11 will help us identify more ways to continue our focus on
12 promoting a positive internal culture.

13 Now, next fiscal year, there are quite a number of
14 initiatives that are in the works to help us improve the
15 customer's experience. I will try and just highlight a few
16 to give you a flavor for it.

17 There's the cashless vending pilot that I talked
18 about a little bit earlier. That's going to break down
19 barriers to play by improving the purchase experience. That
20 was -- that's a major issue with our players because, again,
21 as many of us realize, not everyone has cash on hand.

22 So, the reason that's important is if you are a
23 regular player, you know you have to carry cash, so they
24 come with cash. But unfortunately, the casual player isn't
25 always thinking about that when they're at home maybe. Maybe

1 something in the store triggers an idea to buy a lottery
2 ticket. So, the marketing effort worked, but they don't have
3 the cash to actually activate that purchase, and that's why
4 this is an important initiative.

5 We also plan to continue improvements in the price
6 payment process by further enhancing the paying claims at
7 the district office program and looking at modernizing the
8 claim submission and payment process.

9 Another player experience tactic is to continue
10 work on our 2nd Chance system upgrades. This will bring our
11 2nd Chance system to a more robust platform, meeting higher
12 security standards, while also setting us up for more
13 functionality that can lead to better, more modern player
14 experiences that people are already expecting.

15 And switching to our retail partners, next year we
16 are planning to expand the SmartCount pilot. I talked a
17 little bit about SmartCount last year. This program provides
18 improved inventory management for our retailers, as well as
19 giving them the ability to deactivate Scratch tickets when
20 the business is closed. This should reduce overnight theft
21 and eliminate inventory management concerns. And this
22 program is expected to roll out to more than 800 retailers
23 next year, with a long-term goal for it to be offered to all
24 retailers.

25 To improve the employee experience, we will

1 continue our effort to digitize our Human Resources
2 processes, as you heard from Chris earlier today. And there
3 are several facility improvements slated to better meet
4 safety standard and growing operational needs. And there are
5 still some -- several other projects that are still being
6 prioritized based on their potential impact and resource
7 demands.

8 Last but not least is continuing our 40th
9 Anniversary celebration. This is our sixth and final
10 objective. As of January this year, the celebration started
11 with the launch of our anniversary-themed scratcher games
12 that you can see right here. In the first 12 weeks, the
13 first \$40 game brought in more than \$220 million in sales.
14 Even more importantly, it brought in 50 percent more profits
15 than the last \$30 game launched during its first 12 weeks.

16 The excitement has been strong for the \$ 2-
17 anniversary game as well. Its sales are almost double the
18 average for a typical \$2 product.

19 Beyond the 40th Anniversary games, we've brought
20 back several fan favorites that did very well when they were
21 first launched, as exemplified by a couple of the tickets
22 I've just shown. And Marketing has also developed and
23 launched several new 40th Anniversary elements to celebrate
24 this milestone with players, including a special logo and a
25 dedicated webpage.

1 And let's see if the next part of the technology
2 works for me. All right. So, they also -- Marketing has also
3 started a new social media series of videos that share
4 interesting history and trivia about the Lottery, its games,
5 and its contributions to education. (Inaudible). (Video
6 played).

7 All right. So, next fiscal year, the celebration
8 continues. We will launch more fan favorites and 40th
9 Anniversary Scratch games, such as this one, shown here,
10 our newest variation on California Dreamin', this time with
11 a colorful and classic California design that shines a
12 spotlight on the 40th Anniversary and Californians' impact on
13 public schools.

14 This new game features a scratchable area with
15 interest that when you scratch it uncovers interesting facts
16 about the Lottery's mission, its products, as well as
17 offering information about the contribution players have
18 helped to make to California's schools. So, an example is
19 that, you know, you might scratch it off, and it will say,
20 "Over \$75 billion in prizes have been paid to players since
21 1985." Or, you know, "You can find out how much funding your
22 school district receives from the California Lottery by
23 going on calottery.com." So, it has a lot of, you know,
24 facts and information that hopefully gets our message across
25 to our players.

1 See if there's anything else. Social media will
2 continue to highlight the Lottery's history, appreciation
3 for its players, and our mission, while 40th Anniversary
4 elements will be continued in our marketing products and our
5 promotions. Looking internally, we'll continue efforts to
6 engage, educate, and celebrate our Lottery employees through
7 various internal communications and some potential
8 activities that we're planning down the road.

9 So, that concludes the presentation of the fiscal
10 year 25-26 business plan. I want to thank the -- not only
11 the business planning and research team that helped put all
12 this together, including, you probably heard during the
13 briefing in my absence, Kayla Casus (phonetic) is the
14 assistant deputy director, recently appointed.

15 In addition to that, we have many deputy directors
16 and staff across -- many staff across all divisions, but in
17 particular, Sales and Marketing, Finance, and ITST really
18 helped to put all this together.

19 And with that, I can -- staff recommends that the
20 commission approve the business plan, but I can answer any
21 questions at this time if there is any additional ones.

22 **CHAIR GARRISON-ENGBRECHT:** Perfect. Thank you so
23 much, Jim. This is a great presentation, and I look forward
24 to -- I believe we'll have some questions and comments, but
25 we're going to take a quick 10-minute recess, and we'll be

1 back here at noon.

2 **DEPUTY DIRECTOR HASEGAWA:** Okay.

3 **COMMISSIONER MILLS:** Thank you.

4 **(Off the Record)**

5 **CHAIR GARRISON-ENGBRECHT:** After taking a quick
6 recess, if we can gather.

7 **DEPUTY DIRECTOR HASEGAWA:** It's hard to get them
8 all back --

9 **CHAIR GARRISON-ENGBRECHT:** Yes.

10 **DEPUTY DIRECTOR HASEGAWA:** -- to order, huh? A
11 gavel. Yeah.

12 **CHAIR GARRISON-ENGBRECHT:** Thank you all so much
13 for the quick break, and thank you, Jim, for the wonderful
14 presentation.

15 I'll first open it up to questions from the
16 public. Any comments submitted for commentary on Action item
17 -- let me just make sure I get the right one -- 8(j), Fiscal
18 Year 2025-2026 Business Plan?

19 Seeing none, we'll move on to commissioner
20 comments or questions.

21 **COMMISSIONER ALVIDREZ:** Comments.

22 **CHAIR GARRISON-ENGBRECHT:** Would you like to
23 start?

24 **COMMISSIONER ALVIDREZ:** Quick comment. Under the
25 area for exploring new --

1 **CHAIR GARRISON-ENGBRECHT:** (Overlapping).
2 **DEPUTY DIRECTOR HASEGAWA:** Yeah.
3 **CHAIR GARRISON-ENGBRECHT:** You are not soft-spoken
4 (overlapping).
5 **COMMISSIONER ALVIDREZ:** Is that better? Sorry. I
6 was looking under the 25-26 business plan objectives,
7 exploring new types of retail, that slide in particular,
8 where you talk about how you're going to expand the Lottery
9 retail footprint, you're exploring the Gelson's Rove
10 ReCharge with the 40 EV stations and you kind of outlined a
11 couple of options for how you're going to explore these new
12 types of retail.
13 I just wanted to make a comment about your brief
14 statement, and I'm paraphrasing that Gelson's is kind of a
15 higher retail price point. Right? A more luxury
16 (overlapping) --
17 **DEPUTY DIRECTOR HASEGAWA:** It's a premium --
18 **COMMISSIONER ALVIDREZ:** -- experience.
19 **DEPUTY DIRECTOR HASEGAWA:** -- perceived premium
20 brand -- supermarket brand in Southern California --
21 **COMMISSIONER ALVIDREZ:** That's the (overlapping).
22 **DEPUTY DIRECTOR HASEGAWA:** -- having grown up
23 there.
24 **COMMISSIONER ALVIDREZ:** Well, I appreciate that.
25 Particularly I appreciate it because I think that it could

1 really work to continue to build trust around information as
2 it relates to the Lottery and really work as an equalizer
3 against this perception that we tend to target a lower
4 socioeconomic demographic.

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

6 **COMMISSIONER ALVIDREZ:** And so, to the degree that
7 we can expand on that piece a little bit, at least publicly,
8 I think that could really help with the public perception
9 piece. So, thank you for raising that.

10 **DEPUTY DIRECTOR HASEGAWA:** No, I totally agree. In
11 fact, I think it actually will also help not only with
12 public perception but retailer perception. Because
13 oftentimes I've heard from people who recruit that
14 sometimes, you know, like, brands often don't think -- our
15 customers aren't your customers. And so, this will even help
16 with potentially attracting other retail chains because of
17 being in that type of location.

18 **COMMISSIONER ALVIDREZ:** Uh-huh. Thank you for
19 that.

20 And then, the second piece would be around the
21 employee experience and satisfaction. You talked about
22 leadership training and forums. You know, I'd love to hear
23 more. It doesn't have to be today, but at some point, I
24 would love to hear more about kind of what those initiatives
25 are and if they are mandatory or compulsory. At what level

1 of management? How deep into management those trainings go?
2 Is it first year? Supervisorial kind of pieces, like the SSM
3 1? I would love to hear more about that because I'm always
4 interested in, you know, leadership opportunities and
5 professional development opportunities.

6 And so, any way that we're adding to the MVV, any
7 way that we're adding to employee satisfaction, any way that
8 we are helping to enhance that experience, particularly from
9 a management perspective, I'm very interested in.

10 **DEPUTY DIRECTOR HASEGAWA:** Okay. Will do.
11 Obviously, in (inaudible), we would be teaming with our
12 Human Resources Division to provide that information and
13 presentation.

14 **COMMISSIONER ALVIDREZ:** Thank you.

15 **COMMISSIONER MILLS:** Thanks, Jim, for the
16 presentation.

17 I first just want to acknowledge the immense
18 amount of work that goes into what you just presented, and I
19 know there are a lot of people that are involved, and I just
20 -- really grateful for, you know, how deep you all go in the
21 research and the trends and that sort of thing. So, thank
22 you for that.

23 I have a question and then I have kind of a couple
24 of things -- maybe requests or things that I'd like for us
25 to maybe consider going forward.

1 So, my question is I'd love for you to just talk
2 briefly about, like, how this organization-level plan
3 filters down to departments and forms, like, department-
4 level plans or team-level plans. And then, does it filter
5 all the way down to, like, individual goals? So, how does
6 this plan come to life and impact, you know, the
7 organization as a whole in their team goals and day-to-day
8 work?

9 **DEPUTY DIRECTOR HASEGAWA:** I can't speak to
10 individual goals outside of the people that are under my
11 area of responsibility, but it does get divisional because
12 what happens is that -- I didn't mention every single
13 business plan proposal, if you want to call it that -- or
14 tactic -- just the key ones.

15 I believe for this coming fiscal year in terms of
16 initiatives -- and even at -- this is enterprise-wide level,
17 not a division project -- enterprise-wide projects. There
18 was something like 30 different ones, and we go through,
19 review, evaluate, and then, ultimately, prioritize that.

20 And so what happens after the commission, like,
21 approves the plan and provides any commentary, the
22 evaluation team provides recommendations to the directorate,
23 and the priorities are determined, that gets communicated to
24 all the divisions so that everybody understands that, you
25 know -- like, for example, the Mega Millions enhancements

1 that we talked about at prior commission meetings, as well
2 as this one, that was obviously one of the organization's
3 top priorities, so that everybody across the whole Lottery
4 knew that work related to that project is of ultimate
5 importance. It's a critical priority for us.

6 And so, we organize all these different
7 initiatives into four different buckets, if you want to
8 call, and we communicate that across all divisions, all
9 staff. We have presentations -- will be made on it.

10 **COMMISSIONER MILLS:** And are the individual
11 departments also required to develop their own plans that
12 are guided by the organizational plan, or does that differ
13 across the organization?

14 **DEPUTY DIRECTOR HASEGAWA:** That might vary for --
15 like, for many -- for some of the divisions, pretty much a
16 lot of the business plan is kind of their role -- I mean, it
17 outlines their role in the divisional plan, if you want to
18 put it that way. For other divisions, certain projects are
19 only kind of self-contained within a division, and that
20 would be up to the division to kind of talk about that with
21 their staffs and all.

22 We do -- we are looking at having, like, more of a
23 project governance across all the portfolio of projects, but
24 that's being revved down and kind of -- we're starting it
25 up with a -- not necessarily every project in the

1 organization because that would be a little bit daunting to
2 start it off -- to restart it with that large of an
3 endeavor.

4 **COMMISSIONER MILLS:** Okay. Thank you. Just --
5 those questions are really around, you know, the plan is
6 only as good as it is, you know, really socialized, and, you
7 know, and held accountable, you know, across the
8 organization. So, I think the -- you know, what you describe
9 as the communication of the plan is super, super important.

10 But, you know, anything that you all can do to
11 really make sure that the plan gets really infiltrated into,
12 you know, department plans and activities and goals, to
13 ensure it's a living document and not -- I mean, because a
14 lot of work goes into this. Right? And so, to -- you know,
15 to ensure it is a living, breathing document and that it is
16 your road map, right, across the organization, I think is
17 really important.

18 **DEPUTY DIRECTOR HASEGAWA:** And I might add that,
19 now, with an assistant deputy director in the department,
20 (inaudible) to make it kind of more of a year-long process.
21 So, that way we're able to do more follow-ups than we would
22 have been able to do when we didn't have that level of
23 staffing -- and that high level of staffing.

24 So, that was (inaudible) performance metrics --
25 following up, like, you've heard, like, us talk about things

1 or people talk about certain contracts that have these
2 benefits, and it allows us if they're related to a project
3 in the business plan to follow up and help -- and our
4 research team can kind of go in and help measure those
5 things. So, it ends up being a lot more 360.

6 **COMMISSIONER MILLS:** Yeah. Thank you for that. I
7 think that would also be helpful for us, as you guys are
8 bringing stuff forward, anything that you can tie back to
9 the business plan -- you know, remember, we talked about
10 this in the business plan, and this is key to, you know,
11 moving this initiative forward. It just helps us stay --
12 connect the dots and really stay grounded to the -- you
13 know, the priorities that you're asking us to approve today.

14 My other comments are kind of connected, but I
15 would love to see kind of a -- in the presentation, like, a
16 little bit better connection of the business plan to the
17 budget and the budget assumptions. And I know that not
18 everything you're presenting in the business plan is going
19 to translate to something in the budget, but when it does,
20 it would be really great to help us again kind of connect
21 the dots and preview.

22 Because we're going to get big sheets of lots of
23 numbers from Nick next. Right? And so, to be able to hear --
24 you know, have a more partnership in this presentation to
25 show, like, when you're talking about something in the

1 business plan, that does translate to a budget assumption,
2 that you connect that dot for us. And even on those graphs,
3 like, showing the historical data, like, on sales or on
4 profits, where you can show, like, here is the historical
5 data, and then, here is how that translated into the budget
6 assumption for 2026, which -- you know, that you're going to
7 hear from Nick.

8 I think it would just help us kind of get that
9 throughline and tell that story. So, that's just a request
10 that I just ask you guys to kind of think about where you
11 can do that and help us connect the dots.

12 I -- there were a couple of places where it just -
13 - it seemed disconnected to me, and I know you do all of
14 this research, and that it informs the budget, but just,
15 when I can't see the connection -- like, there was a goal,
16 continue to draw -- grow draw game sales and shift away --
17 one of them was to kind of shift away from multi-game state
18 games, but then, when I took a sneak peek at the budget,
19 multi-state games are projected to increase in the budget.

20 So, just on the surface, it looks like, wait, we
21 have a goal that's different than the budget and it would
22 be, you know, interesting to understand that. We also had a
23 goal of expand Scratcher sales, but then Scratcher sales are
24 budgeted to decrease. You know, so just really better tying
25 that together would be super helpful.

1 And then, the last thing is around, like, numeric
2 goals or benchmarks and, like, measurable -- like, how do we
3 know we're successful in this plan, and are there places
4 where we should be thinking about other kind of numeric
5 goals or benchmarks to kind of benchmark success?

6 And then, thinking about, you know, are there
7 other key performance indicators that Director Chima, when
8 she gives her kind of intro remarks -- we really just focus
9 on sales. And I get it. Like, no sales, no contribution to
10 education, but are there other things -- other key metrics
11 in this business plan that help drive sales that we should
12 be monitoring to -- you know, that shows success against
13 this plan?

14 So, nothing you need to address today, but I just
15 wanted to put that out there to kind of -- for us to think
16 about and to think about kind of going forward. Thank you.

17 **DEPUTY DIRECTOR HASEGAWA:** Let me address a couple
18 of those things. So, in terms of the connection issue, there
19 are -- the business plan has activities that don't
20 necessarily translate to this year's numbers, particularly
21 because in many cases, you know, development and
22 implementation might occur during the year and may happen
23 until the following year because many of our projects are
24 multi-year initiatives. But yet, we are spending dollars
25 against it. That's why it has to be part of the business

1 plan -- so, you're aware of where our expenditures are
2 going.

3 So, in many cases -- sometimes it won't have a
4 direct effect on the budget sales numbers that Nick will
5 present for the upcoming fiscal year.

6 **COMMISSIONER MILLS:** But you're doing historical
7 research that informs the budget. Right?

8 **DEPUTY DIRECTOR HASEGAWA:** Right, but you're
9 talking about -- you talked about, like, a lot of the plan
10 initiatives -- specific initiatives (overlapping).

11 **COMMISSIONER MILLS:** I'm talking about both. Like,
12 the trends -- when you're showing trends, it would be --
13 where you can, it would be helpful for us to see, in
14 addition to the historical trends on, say, sales or on the -
15 - you know, the net profit contributions, where you can
16 show, and here is the -- you know, the projection or the
17 budgeted assumptions for 2026. It would be interesting to
18 show that.

19 I would just ask you to please think about that
20 because many of these goals are also multi-year goals and
21 things that you guys have been working on for a while. And
22 anything -- it feels very siloed in even your response to me
23 -- feels very siloed. Like, oh, the business plan. We're
24 doing this stuff and then the budget is separate and they're
25 not. They should be married together.

1 And so, anywhere that you can show us how the
2 business plan, you know, relates to the budget and how these
3 goals have iterated over time and how that's impacting the
4 budget, I just think that would be -- it would be helpful to
5 marry these two things closer together. Thank you.

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

7 **CHAIR GARRISON-ENGBRECHT:** Thank you, Jim.

8 I just want to make a comment, and I'm going to
9 relate it. But the -- 83 percent of Millennials prefer
10 brands aligned with values. As an elder Millennial, I'll
11 agree with that. And I just want to commend your team with
12 the back -- in Research and then the Marketing Team.

13 I know that Director Chima is probably tired of me
14 sending her photos, but I love seeing the signs at the
15 vendors say, X amount of dollars were contributed to this
16 community. This store is a lucky winner. And so, I just want
17 to make note of that. That's something that I really
18 appreciate, and I think that it does reaffirm the value of
19 both the community contributions, but also the impact that
20 the dollars go back to the community.

21 Caroline (phonetic), this might be something --
22 just an idea, but for the recipients of those dollars, I
23 know that we had a commercial about a year and a half ago --
24 I think it was from Orange Coast College -- demonstrating
25 one of their usage of funds. But how can our partners and

1 the recipients become really great ambassadors?

2 I know that part of our work as commissioners is
3 also to be good ambassadors for the Lottery and our
4 contributions to education, and I think that there might be
5 ways of even positioning the recipients -- not just the
6 winners or the stores and the retailers, but also the
7 recipients of the dollars. I know we've seen some great
8 commercials, with our teachers providing great stories, our
9 students providing great stories, and so, I would love to
10 see more of that.

11 I think one of the things -- this is -- this will
12 probably come out throughout the next year, but it was
13 related to the slide around satisfaction. With our
14 retailers, at least three quarters fairly satisfied and then
15 roughly 40 percent of Californians are at least somewhat
16 satisfied with their experience interacting with the
17 Lottery.

18 I know that one of the outcomes of this is looking
19 at those barriers and what might help to increase
20 satisfaction levels both on the retailer side and also on
21 the customer's side. So, I'm really excited to see what
22 those priorities will look like. I'm just putting that as a
23 -- planting a seed -- that those numbers are good, but they
24 could be better. You noted that in yours, but I would love,
25 at a future date, to get an update on those priorities of

1 what we've identified as the strategies to improve both
2 retailer experience and the customer experience. I imagine
3 you're already starting to think of some of those, but at a
4 later date, it'd be great to hear more about that.

5 **DEPUTY DIRECTOR HASEGAWA:** Yeah, the research that
6 was on the consumer touchpoints that I talked about I think
7 the fieldwork is done, and -- you know, so -- soon digesting
8 all that information and it'll help guide really ultimately
9 the subsequent plan. Because we're kind of -- the three
10 years of the current one is -- are coming to a close. So, we
11 really got to look to see if -- you know, what our next
12 things that we'll need to come about in order to keep
13 continuing to grow contributions.

14 **CHAIR GARRISON-ENGBRECHT:** I think there was some
15 things in the plan that might relate to this -- the digital
16 signage, more information, more communication around the
17 contributions to education. I think that the pay at the
18 district offices has been a success, and even -- I think
19 updating the games and providing more information around
20 what the changes have been with the multipliers -- I think
21 are all things that are hopefully going to improve both
22 player satisfaction and retailer satisfaction. So, great job
23 and efforts on that end.

24 **DEPUTY DIRECTOR HASEGAWA:** Thank you.

25 **CHAIR GARRISON-ENGBRECHT:** Are there any

1 additional questions?

2 Let me just make sure I'm right -- make sure I
3 have the right number. Do I hear a motion to approve Action
4 Item 8(j), Fiscal Year 2025-2026 Business Plan?

5 **COMMISSIONER MILLS:** (Overlapping) take public
6 comment?

7 **DIRECTOR CHIMA:** We already did.

8 **CHAIR GARRISON-ENGBRECHT:** We did.

9 **COMMISSIONER MILLS:** We did. I'm sorry.

10 **COMMISSIONER ALVIDREZ:** Motion to approve.

11 **COMMISSIONER MILLS:** I'll second. Sorry.

12 **CHAIR GARRISON-ENGBRECHT:** Will the Secretary
13 please call the roll?

14 **MS. SARWARI:** Commissioner Mills?

15 **COMMISSIONER MILLS:** Yes.

16 **MS. SARWARI:** Commissioner Alvidrez?

17 **COMMISSIONER ALVIDREZ:** Yes.

18 **MS. SARWARI:** Chairman Garrison-Engbrecht?

19 **CHAIR GARRISON-ENGBRECHT:** Yes.

20 **DEPUTY DIRECTOR HASEGAWA:** Thank you.

21 **CHAIR GARRISON-ENGBRECHT:** Great job, Jim. Thank
22 you.

23 And our next item, Action Item 8(k), Fiscal Year
24 2025-26 Budget, presented by Nick. Good afternoon.

25 **DEPUTY DIRECTOR BUCHEN:** Good afternoon.

1 **CHAIR GARRISON-ENGBRECHT:** You've been here since
2 the morning.

3 **DEPUTY DIRECTOR BUCHEN:** Yeah. So, the good news
4 is, I don't have 40 slides. The bad news is --

5 **COMMISSIONER MILLS:** (Overlapping) a very small
6 (overlapping).

7 **DEPUTY DIRECTOR BUCHEN:** -- I have a lot to say,
8 so.

9 **COMMISSIONER MILLS:** Very small print number.

10 **DEPUTY DIRECTOR BUCHEN:** Here we go. So, I'm here
11 to present the Lottery's Fiscal Year 2025-26 Budget for your
12 approval.

13 And I'll start with a quick recap of our zero-
14 based budgeting process, in which we developed the Lottery's
15 operational expense budget from the ground up. This entails
16 vetting and justifying each individual element of expense
17 prior to inclusion in the proposed budget, which enables
18 resources be concentrated where they're most effective and
19 best aligned with the Lottery's strategic objectives.

20 The process begins with our Budgets Team meeting
21 with the various program areas throughout the Lottery to
22 analyze costs necessary to "keep the lights on" in
23 developing an operational budget. The business planning and
24 research team develops a preliminary sales goal by-product,
25 which is used to determine the associated prize expense.

1 This allows us to then develop the retailer compensation and
2 gaming cost estimates since these are primarily driven by
3 the sales.

4 Next, the Budgets Team focuses on analyzing
5 requests for discretionary spending, considering factors
6 such as alignment with the Lottery's strategic direction,
7 the cost compared to the anticipated short-term and long-
8 term benefits, and the availability of resources. And we do
9 all of this to ensure that funding for education is
10 maximized annually.

11 Although my presentation today is a fairly high-
12 level summary of the major elements included in our proposed
13 budget, I want you to feel confident voting on the budget,
14 knowing the level of detail, analysis, and scrutiny that
15 goes into preparing the Lottery's annual financial plan.

16 So, here it is. Don't bother squinting your eyes
17 because there's way too much detail to take in on this
18 slide. So, instead, I'll walk through each of the major
19 sections of the budget separately.

20 This slide and other similar slides I will cover
21 today compare our estimated revenues and expenditures for
22 the 2025-26 fiscal year to our estimate of how we will end
23 the current fiscal year on June 30. As a reminder, the
24 Lottery's budget does not include any funding from the State
25 or Federal Governments and is solely funded by our

1 operations, with the source of revenue being the sale of
2 lottery tickets.

3 And keep in mind, the Lottery's budget is a basic
4 formula, comprised of four major components: our projected
5 ticket sales revenue, minus the associated prize expense,
6 minus our administrative expenses, equals our contribution
7 to education.

8 All dollar amounts on this slide and the other
9 slides showing the breakout of our proposed budget are
10 reflected in thousands. And I also want to caveat, with the
11 budget being presented for your approval in mid-May rather
12 than at the end of June, the sales goals estimated for
13 fiscal year 2025-26 are very preliminary, and some of the
14 projected expenditures are not quite as refined as they
15 otherwise would be.

16 Similarly, we normally would have another month's
17 worth of data to -- for both revenues and expenditures -- to
18 incorporate into our current year estimate.

19 So, with that disclaimer, sales represents the
20 first of the four major components in the budget, and you
21 can see at the bottom of the middle dollar column, we are
22 projecting a total of \$9.1 billion in sales revenue for
23 fiscal year 2025-26. In the bottom of the far-right column
24 shows that this is an increase of \$72.3 million over the
25 total sales level with which we are projecting to end the

1 current fiscal year, and that represents a 0.8 percent
2 increase.

3 So, starting at the top with Scratchers, the
4 fiscal year 2025-26 budget includes a sales goal of \$6.82
5 billion, which represents a decrease of \$88.4 million from
6 the current fiscal year. The projection for 2025-26 reflects
7 the continuation of both the \$25 and \$40 price point games
8 and also the continuation of the Lottery's Scratchers
9 category repositioning effort, which Jim spoke of.

10 However, as Jim also mentioned, this goal does not
11 yet capture our latest Scratchers sales trends from the
12 current fiscal year, which have been on the upswing in
13 recent months. So, that really is a big driver of what
14 appears to be a year-over-year decrease.

15 Looking at the next two lines, the budget includes
16 a sales goal of \$530 million for Powerball and \$650 for Mega
17 Millions in fiscal year 2025-26. The Powerball goal
18 represents an increase of \$95.5 million and Mega Millions'
19 goal is an increase of \$46.9 million over the level of which
20 we are projecting to end the current fiscal year.

21 And these year-over-year increases are primarily
22 due to the fact that we've had considerably fewer high
23 jackpots than expected in the current fiscal year, and this
24 has been discussed.

25 The sales goals for both Powerball and Mega

1 Millions in the coming fiscal year were again developed
2 utilizing simulation models, and we used the 50 percentile
3 for rollover luck. So, what that means is that half of the
4 scenarios in the simulation yield more draw-to-draw rolls,
5 leading to higher jackpots, and half of the scenarios are
6 less favorable in terms of rollovers and high jackpots.

7 As Jim also discussed, to develop the Mega
8 Millions goal for the coming fiscal year, the model
9 incorporated updated sales at different jackpot levels from
10 when the game was still at the \$2 price point. To account
11 for the Mega Millions game enhancements that went into
12 effect with the April 8 draw, a fixed percent increase was
13 then applied to derive the \$650 goal for the coming year.

14 And given that we've only had 10 completed Mega
15 Millions draws under the enhanced game structure and that
16 tonight's draw will only be the second for which the
17 advertised jackpot is more than \$100 million, that we do not
18 have sufficient data developed to develop a more
19 sophisticated model at this time.

20 So, moving to the next line, for SuperLotto Plus,
21 the fiscal year 2025-26 sales goal of \$240 million
22 represents an increase of \$3.3 million over the current
23 fiscal year. And this year-over-year increase is a function
24 of SuperLotto Plus sales in the current fiscal year being on
25 pace to come in slightly below goal.

1 And similarly, on the next line, the fiscal year
2 2025-26 budget includes a sales goal of \$440 million for Hot
3 Spot. The approximately \$19 million year-over-year increase
4 also is primarily due to Hot Spot sales in the current
5 fiscal year tracking slightly under goal.

6 And lastly, the daily games, comprised of Fantasy
7 Five, Daily 3, Daily 4, and Daily Derby have a combined
8 sales goal of \$420 million for fiscal year 2025-26. This is
9 a decrease of \$3.9 million, or less than 1 percent, from the
10 combined current year sales in these games and is primarily
11 due to better than anticipated performance we achieved in a
12 few of these games in the current fiscal year that is not
13 expected to repeat in the coming fiscal year.

14 **COMMISSIONER MILLS:** Nick, I'm sorry. Before we
15 move on, can you say again what's driving the -- you said
16 perceived decrease in Scratchers sales? Can you just say
17 that again? I missed it. Sorry.

18 **DEPUTY DIRECTOR BUCHEN:** So, there's a couple
19 things going on. So one is we know that our 25-26 projection
20 it didn't get -- take into account the more recent growth
21 that we've had in Scratchers. So, if we had more time,
22 likely the projection for 25-26 would've been higher. The
23 other factor at play is with less data being available for
24 the current fiscal year projection, I'm not 100 percent
25 confident in the -- you know, what shows as \$6.9 billion in

1 sales in this current year. So, it -- yes, on paper, right
2 now it's showing \$88.4 million decrease, but at the end of
3 the day, I wouldn't be surprised if that's closer to not so
4 much a decrease, so.

5 **COMMISSIONER ALVIDREZ:** And how much more time
6 would you need to feel more confident in those numbers?
7 Because I know that we're early --

8 **DEPUTY DIRECTOR BUCHEN:** Right.

9 **COMMISSIONER ALVIDREZ:** -- in this conversation
10 and we're earlier than normal, so.

11 **DEPUTY DIRECTOR BUCHEN:** Right.

12 **COMMISSIONER ALVIDREZ:** At what point in the
13 fiscal year would you feel more comfortable with those
14 projections?

15 **DEPUTY DIRECTOR BUCHEN:** That's tough to answer.
16 So, like Jim explained, the sales projection -- preliminary
17 sales projection is kind of the, you know, foundation for
18 creating the Lottery's budget and that was provided to us in
19 early March. And that was based on data from January. So,
20 you know, even just having another month's worth of data
21 obviously would have been helpful.

22 But typically, for, like -- admittedly for the
23 draft that I present in May, we would've had kind of similar
24 data at this point, but that -- the June budget affords us a
25 couple additional months' worth to incorporate into the

1 projections.

2 **COMMISSIONER MILLS:** So, I would just, this is
3 where I'm kind of having a little bit of a disconnect
4 because you -- between the plan and the budget -- because
5 you're -- I mean, you just have to use the numbers you have,
6 right -- the data that you have to make the best, you know,
7 estimates possible no matter where you are, you know, in the
8 year, and I do recognize we're a little bit early this year.
9 But these -- this is the data that you have.

10 And so, with the data that you have, with the best
11 estimate you can make for 24-25, you still chose to present
12 a budget that shows a decrease in Scratchers sales for '26,
13 even though we have a goal of increasing Scratchers sales --
14 if I can -- expand Scratchers sales.

15 So, I just have a disconnect between, like, you
16 know, our business goals and, like, how -- what we choose to
17 put in the budget.

18 **CHAIR GARRISON-ENGBRECHT:** I think my preference
19 is to allow Nick to procedure with the presentation. I
20 understand the question and I think it would be great to see
21 the full budget presentation in its totality, and then I
22 think we can do more specific questions, based on --

23 **COMMISSIONER MILLS:** I agree and --

24 **CHAIR GARRISON-ENGBRECHT:** -- the business plan in
25 connection with the proposed budget. Does that work for you,

1 Nick?

2 **COMMISSIONER MILLS:** And maybe it's --

3 **DEPUTY DIRECTOR BUCHEN:** Yeah. Sure.

4 **COMMISSIONER MILLS:** -- more of a comment. Just --
5 I'll leave it at that.

6 **DEPUTY DIRECTOR BUCHEN:** And this is a good time.
7 I was going to say it toward the end, but -- so, because we
8 have very preliminary -- both revenues and expenditures --
9 we anticipate presenting a revised budget for the 2025-26
10 fiscal year to the commission at a future commission
11 meeting.

12 **COMMISSIONER MILLS:** Okay. So, we'll get a --
13 we'll approve today and then the expectation is that we'll
14 get a revised budget that we'll approve --

15 **DEPUTY DIRECTOR BUCHEN:** To be determined if it'll
16 be approved -- and so, if it'll be an Action Item or an
17 Informational Item. If by chance we're tracking very close
18 to these very preliminary projections, there really wouldn't
19 be a reason to approve another budget, but in any case,
20 we'll present a budget --

21 **COMMISSIONER MILLS:** Okay.

22 **DEPUTY DIRECTOR BUCHEN:** -- again --

23 **COMMISSIONER MILLS:** Thank you.

24 **DEPUTY DIRECTOR BUCHEN:** -- revised budget. Uh-
25 huh.

1 Okay. So, Prize Expense. That's the next major
2 area of the budget and Prize Expense is projected to total
3 \$6.03 billion in 2025-26. This represents an increase of
4 \$42.4 million or 0.7 percent over the current year estimate.
5 And this is driven by the projected overall year-over-year
6 increase in sales.

7 You'll recall the Lottery has a policy, requiring
8 the director to determine that prize payout levels across
9 all games have been optimized for the coming fiscal year,
10 and because Scratchers sales account for more than 70
11 percent of our total revenues and the Lottery has more
12 direct influence on the sale of these tickets, the Lottery
13 considered several preliminary product plan scenarios for
14 Scratchers, with varying price point assumptions to identify
15 the optimal mix, yielding the highest estimated contribution
16 to education.

17 The combined impact of this effort is reflected on
18 the slide with total projected prize expense for 2025-26
19 representing 66.2 percent of our total projected sales. And
20 this is, within the range of 65 percent to 67 percent was
21 recommended as being optimal in the analysis that was most
22 recently conducted for the Lottery.

23 And I will now move on to our Administrative
24 Expenses, which the Lottery caps at 13 percent of our total
25 annual sales revenue.

1 The first area of administrative expense is
2 retailer compensation, which reflects the commissions we pay
3 to our retailer partners for selling lottery tickets,
4 cashing eligible winning tickets, redeeming free ticket
5 prizes, and replays, and earning incentive bonuses for
6 selling certain tickets with very high prizes.

7 The total retailer compensation is estimated to be
8 just under \$617 million in 2025-26. And this represents a
9 decrease of \$405,000 from the current year projection and is
10 primarily due to assuming a more average payout for our
11 incentive bonus payments than we experienced in the current
12 fiscal year.

13 Also included within administrative expense and
14 shown on this slide are gaming costs, which are used to pay
15 our contractual gaming system provider and to print and
16 distribute the Scratchers tickets. These costs are estimated
17 to total \$157.3 million in the coming year, which reflects a
18 decrease of \$4.1 million from the current year projection.

19 And the estimated year-over-year decrease in
20 gaming costs is primarily driven by lower anticipated costs
21 to print and distribute Scratchers tickets based on the
22 projection for 2025-26 being slightly less than what we were
23 on pace to achieve in the current fiscal year.

24 And the final area of administrative expense is
25 Operating Costs, which are estimated to total \$408.7 million

1 in 2025-26. Excluding the reserves, which I'll talk about
2 later, the year-over-year increase in operating costs is
3 projected to be \$8.8 million, rather than the \$108.8 that
4 shows. So, I'll detail this increase by going through this
5 slide line-by-line.

6 I'll spend the most of the time on the first item
7 within operating costs, which is personal services,
8 representing the salary and benefit costs of all Lottery
9 employees, including temporary help and overtime. Personal
10 services costs for fiscal year 2025-26 are projected to
11 increase by \$9 million over the current fiscal year.

12 This year-over-year growth is driven by a
13 previously negotiated general salary increase that becomes
14 effective on July 1, and the inclusion of 3 temporary help
15 and 15 new permanent positions, beginning in fiscal year
16 2025-26 that are needed to address critical operational
17 needs.

18 While the bulk of the year-over-year dollar
19 increase in personal services is to fund the general salary
20 increase, \$1.3 million is needed to fund the 15 proposed new
21 positions, which I will now go over.

22 Five of these new positions are in the Sales and
23 Marketing Division and are needed to maintain the desired
24 ratio of field staff to assigned retailers to keep pace with
25 our expanding retailer network.

1 Four of the new positions are in the Operations
2 Division and are needed to address the Lottery's custodial
3 needs.

4 Three of the new positions are in the Executive
5 Division and are needed to implement information security
6 risk mitigation strategies and to perform sensitive
7 investigations and reviews.

8 One of the new positions is in the Finance
9 Division and is needed to ensure continuity and efficiency
10 of critical prize payment program business functionality in
11 the gaming system.

12 One of the new positions is in the Information
13 Technology Services Division and is needed to provide
14 operation oversight, staff development, and strategic
15 planning activities for the Lottery's Digital and
16 Interactive Services Unit.

17 And lastly, one of the new positions is in the
18 Security and Law Enforcement Division and is necessary to
19 ensure compliance with laws, rules, and regulations
20 governing gaming operations and many of the Lottery's other
21 important security and law enforcement responsibilities.

22 An additional nine positions that are being funded
23 out of the Lottery's temporary help blanket in the current
24 fiscal year are being converted to permanent in the coming
25 year. Although this doesn't add anything to the year-over-

1 year personal services dollar increase, it does add nine
2 positions to our headcount, but this is appropriate, as the
3 ongoing need for all nine positions has clearly been
4 established.

5 It's important to note that the Lottery's total
6 expenses for personal services in 2025-26, including funding
7 for the 15 new positions, is estimated to be just 1.6
8 percent of our projected revenues for this fiscal year,
9 which highlights our operational efficiency.

10 So, moving on to the second line within operating
11 costs, the marketing budget plan reflects an estimated year-
12 over-year decrease of \$7.8 million. And this is an area we
13 had to reduce to maintain a prudent administrative spending
14 reserve. So, we will earmark within the administrative
15 spending reserve, the slightly more than \$12 million of the
16 marketing budget plan that we weren't able to fund and
17 reassess if our sales performance warrants a transfer from
18 the reserve during the course of the fiscal year.

19 Moving down to the contractual services line, we
20 are projecting a year-over-year increase of \$6.8 million.
21 The main driver of this increase is the cost to fund needed
22 initiatives, such as finishing out the Northern Distribution
23 Center project that Jean spoke of in Item 8(a), and
24 continuing to automate certain Lottery Human Resources
25 functions and updating the audio/visual equipment in the

1 pavilions, which Chris spoke of in Items 8(c) and 8(d)
2 respectively.

3 And this is another area of the budget we had to
4 reduce to maintain a prudent reserve. Specifically, of the
5 \$35.4 million included in the budget for contractual
6 services in fiscal year 2025-26, \$4.4 million is to continue
7 the Lottery's education campaign that is designed to uplift
8 the Lottery's mission and position the Lottery more
9 favorably among California adults.

10 So, running the full campaign as envisioned for
11 the coming year, it is estimated to cost \$8 million. So, we
12 are earmarking \$3.6 million within the administrative
13 spending reserve for this purpose.

14 And again, we'll reassess as we get deeper into
15 the coming year and can evaluate how our sales are tracking
16 to projections.

17 Moving to the next line, depreciation costs have a
18 projected year-over-year decrease of \$1.5 million. This is
19 primarily due to older equipment, such as jackpot signs and
20 vending machines dropping off the Lottery's depreciation
21 schedule. In some instances, we are continuing to utilize
22 this equipment beyond the end of its anticipated useful
23 life. And in other cases, the equipment is being replaced
24 with equipment that was included as part of the Lottery's
25 most recent gaming contract amendment.

1 Next, is operating expense, which includes typical
2 overhead costs, such as telecommunications, vehicle
3 operating costs, expendable equipment, facility maintenance
4 and operations, and utilities. This reflects an estimated
5 year-over-year increase of \$2.2 million, which is primarily
6 due to a higher assessment by the Department of Finance to
7 pay a pro-rata share of indirect costs incurred by central
8 service agencies, such as the State Controller's Office and
9 the California Department of Human Resources.

10 The year-over-year increase in this item would
11 have been larger, if not for us reducing another element to
12 maintain a prudent reserve. Specifically, we are funding
13 half of what was requested to replace aging Lottery vehicles
14 in our fleet.

15 The last two items within operating costs are the
16 reserves. In the current fiscal year, we've zeroed out the
17 reserves, since the items that we funded from them are
18 already reflected within the expenditures in the other
19 operating costs that appear above the reserves.

20 For fiscal year 2025-26, we are again maintaining
21 a \$5 million reserve for insurable risk to cover our fiscal
22 exposure for the areas of our organization that we are self-
23 insuring.

24 And shown on the next line, the 2025-26 budget
25 includes a \$95 million administrative spending reserve. This

1 administrative spending reserve acts as a safeguard against
2 uncertainties, such as if our sales do not come in as
3 projected, and it allows us to maintain operations when
4 unanticipated needs arise during the year. And this is
5 especially important, since in zero basing the Lottery's
6 budget, we only include funding that is certain to be
7 needed.

8 As I've discussed, we've earmarked a portion of
9 the reserve to account for the items within operating costs
10 for which we reduced funding. In addition, we are
11 maintaining an itemized list of other funding requests that
12 may or may not materialize or for which we don't yet have a
13 solid way of estimating, such as the impact of tariffs.

14 The earmarked items are prioritized to be funded
15 from the administrative spending reserve if our sales
16 performance warrants the transfer. And additional items may
17 be funded from the reserve to the extent they come to
18 fruition during the course of the fiscal year and are sales-
19 supported.

20 So, looking at the bottom line, the total
21 administrative expenses, which is the sum of the retailer
22 compensation, gaming costs, and operating costs, including
23 both of the reserves, is projected to be \$1.183 billion in
24 2025-26. And this amount is precisely 13 percent of our \$9.1
25 billion in projected sales.

1 Pursuant to the Lottery Act, which prevents us
2 from retaining earnings from year to year, any unspent
3 administrative funds below the 13 percent cap, including
4 unspent funds within both reserves, will be transferred in
5 their entirety to education. It's important to highlight
6 that the Lottery typically spends well below the cap each
7 year and has transferred nearly \$1.7 billion in
8 administrative savings to education to date.

9 Now, I've spent a lot of time talking about our
10 administrative costs.

11 **COMMISSIONER MILLS:** I'm sorry. Mr. Chair, before
12 we move on from that slide, may I ask a couple of questions
13 on that slide?

14 **CHAIR GARRISON-ENGBRECHT:** Yes, of course.

15 **COMMISSIONER MILLS:** Thank you. Okay. So,
16 marketing is being cut. Can you just say a little bit about
17 what -- can you say anything about what's being cut in
18 marketing?

19 **DEPUTY DIRECTOR BUCHEN:** I cannot. So, the way --
20 we did a comprehensive marketing plan from the Marketing
21 Team and so, it really came down to a numbers balancing game
22 for us, admittedly, to derive, like, what we thought is a
23 prudent reserve.

24 So, there was roughly \$12 million more that was
25 requested than what we're building in funding for. So, the

1 Marketing Team will be able to prioritize how they choose to
2 spend. Obviously, we're not going to stop things like the
3 Education Campaign or, you know, Scratchers repositioning
4 effort. We can continue momentum, but we might not be able
5 to do everything that was originally envisioned.

6 **COMMISSIONER MILLS:** So, the process is the
7 Marketing Team submits their number, you put it together and
8 say okay, there is -- I got to cut somewhere because we have
9 too much admin, and then, the Marketing Team then has to
10 prioritize where those cuts come from. Okay.

11 **DEPUTY DIRECTOR BUCHEN:** Correct.

12 **COMMISSIONER MILLS:** Okay. It's just a little
13 disturbing because marketing drives sales and so -- but,
14 okay.

15 **DEPUTY DIRECTOR BUCHEN:** Definitely. The other
16 factor that's important to point out is that's not -- I
17 mean, it's easy for me to say, like, yes, they're reduced by
18 \$12 million. That translates into timing challenges for the
19 Marketing Team because they're -- you can't just, like,
20 instantly buy an ad.

21 **COMMISSIONER MILLS:** Right.

22 **DEPUTY DIRECTOR BUCHEN:** There's a lot of planning
23 that goes into it, so if they don't know exactly how much
24 they're going to be able to have, that makes it more of a --
25 much more of a challenge to adapt when we are able to

1 transfer from the reserve.

2 **COMMISSIONER MILLS:** It's interesting to me
3 because I also heard you say, well, if sales are better than
4 expected, then we'll give back marketing budget, but those
5 two are correlated. So, just for the record, I'm struggling
6 a little bit with that.

7 The -- and then, you said something about
8 contractual services. You said it was a decrease, but it
9 looks --

10 **DEPUTY DIRECTOR BUCHEN:** No, so it's an increase.
11 It would've been more of an increase if we hadn't -- not
12 funded the other half of the vehicles that were requested.

13 **COMMISSIONER MILLS:** Oh, I see. Okay. It would've
14 been more of an increase if it weren't for the -- and then,
15 are there any concerns from a safety perspective on not
16 replacing aging vehicles? Has an analysis been done and this
17 is a -- we believe this is a very prudent decision?

18 **DEPUTY DIRECTOR BUCHEN:** Yes, the -- so, the State
19 actually has guidelines, but there's not, like, a fixed you
20 shall replace a vehicle when it reaches this level of
21 mileage. The Lottery has conducted analysis on it.
22 Obviously, the longer you hang onto a vehicle, the more
23 you'll incur maintenance costs that will, you know, more
24 than offset the cost of just buying a new vehicle. So, with
25 all that said, obviously, we prioritize the most aging ones

1 first.

2 **COMMISSIONER MILLS:** Okay. Got it. And then, did I
3 hear you say that we're also cutting the PR Campaign around
4 our benefit to education? Okay.

5 **DEPUTY DIRECTOR BUCHEN:** Yes. So, that's an
6 example of -- we're currently able to fund a little more
7 than half of what was requested for it. So, again --

8 **COMMISSIONER MILLS:** Half of what was requested --

9 **DEPUTY DIRECTOR BUCHEN:** -- we'll be able to
10 maintain moment, but they -- absent the sales coming in as
11 projected, you know, we'll transfer the remaining, as we
12 can, from the administrative reserve.

13 **COMMISSIONER MILLS:** Okay. This is just a comment,
14 but I -- this is another place where I'm having kind of a
15 disconnect between what's showing up in the budget and then
16 what was in our business plan to, like, continue to
17 increase, you know, the public perception about the Lottery.
18 So, I hope our -- I know our PR Team is very creative in how
19 they do that, so hopefully, they'll continue to be super
20 creative, given that cut.

21 And then, that last thing on this page is can you
22 remind us how that administrative spending reserve is
23 accessed? Like, once we approve it here, can you guys just
24 use it, or does the utilization of it have to come back to
25 us for approval?

1 **DEPUTY DIRECTOR BUCHEN:** It's -- it requires
2 director approval to transfer from the reserve. So, we do
3 that on a quarterly basis. We kind of -- you know, after a
4 given quarter ends, we tally up everything that was not in
5 the original projection for that quarter, and we present to
6 the director, here -- based on, you know, X, Y, and Z
7 occurring during that quarter that wasn't expected, we need
8 to transfer this much from the reserve.

9 Once we have director approval, I provide it as
10 information to the commissioners on -- you know, here is how
11 much we transferred for the given quarter, and here is why.

12 **COMMISSIONER MILLS:** Okay. So, it comes back to us
13 as information. So, in theory, we are being asked to approve
14 the full utilization of that administrative reserve by
15 approving this budget?

16 **DEPUTY DIRECTOR BUCHEN:** It's -- yes and no. And
17 the reason I say that is because, as you'll see on the last
18 slide, we always assume that the administrator's spending
19 reserve remains unspent when we have the final contribution
20 to education number.

21 So, on one hand, yes, you're -- where I'm -- by
22 presenting this today, I am authorizing the commission to
23 authorize us to transfer up to \$95 million out of
24 administrative spending reserve. Obviously, we don't intend
25 to do that. So, anything that we don't have to spend would

1 go to education.

2 **COMMISSIONER MILLS:** But you're approved to do so?

3 **DEPUTY DIRECTOR BUCHEN:** Correct.

4 **COMMISSIONER MILLS:** Okay. Thank you.

5 **DEPUTY DIRECTOR BUCHEN:** Okay. So, to provide some
6 context on our administrative costs, if we assume the
7 reserves remain unspent and add up all but the purple slice
8 of this pie, this reflects that almost 80 percent of our
9 projected administrative expense for fiscal year 2025-26 is
10 comprised of retailer compensation, gaming expenses, and
11 marketing costs. And these three components of our
12 administrative expense are unique to our business operations
13 and directly influence our sales and funding for education.

14 Our other operating costs, comprised of our
15 overhead, are estimated to account for just under -- or just
16 over 20 percent of our total administrative expenses, and
17 only 2.4 percent of our projected revenues for the coming
18 fiscal year. So, that highlights that we do a tremendous job
19 of managing the costs within our control, which enables us
20 to maximize our contributions to education, which, of
21 course, is the whole reason we exist.

22 Sales, minus prize expensive, minus administrative
23 expenses actually equals our net operating income. There are
24 a few additional items that determine the final contribution
25 to education amount. Specifically, both unclaimed prizes and

1 interest earnings on our cash sitting within the State
2 Treasury are mandated to be transferred directly to
3 education. In addition, any unspent funds within both
4 reserve line items also will be transferred to education.

5 So, assuming both reserves remain unspent, the
6 total contribution to public education is estimated to be
7 \$2.075 billion in 2025-26. And that represents an increase
8 of \$21.7 million over the amount of funding we expect to
9 provide to education in this current fiscal year.

10 And this is the second consecutive year for which
11 we are projecting more than a \$2 billion contribution to
12 education in the Lottery's budget. And that's an important
13 milestone since one of the Lottery's strategic financial
14 goals is to grow sales so that contributions to education
15 consistently exceed \$2 billion, without relying on
16 extraordinary circumstances to reach those levels.

17 So, this next slide is a simple depiction to help
18 dispel the myth of where all the Lottery funding goes.
19 Assuming the reserves remain unspent, and excluding
20 unclaimed prizes and interest earnings, you can see that 66
21 percent of our projected sales for fiscal year 2025-26 are
22 estimated to go towards paying prizes, 22 percent is
23 estimated to provide supplemental funding to education, 9
24 percent is projected to be used to compensate our retailer
25 partners and to pay for our gaming costs, and approximately

1 3 percent is estimated to be used for our operating
2 expenses.

3 The 9 percent for retailer and gaming costs
4 combined breaks out as retailer compensation, accounting for
5 approximately 7 percent of total sales, and gaming costs
6 accounting for 2 percent.

7 So, adding all of this up, more than 95 cents out
8 of every dollar the Lottery brings in is returned to the
9 public in the form of funding for education, prizes paid to
10 our players, and compensation paid to our retailer partners
11 throughout the state.

12 Now, shifting gears slightly, unfortunately, this
13 budget does not meet the Lottery Act's requirement that our
14 net revenues allocated to public schools as reflected in the
15 Lottery's commission-approved budget be at least as much as
16 we're allocated on average in the prior five fiscal years.

17 The highlighted row on this slide shows that the
18 average of the contribution to education for the preceding
19 five fiscal years is \$2.045 billion dollars, including our
20 projected net revenues for the current fiscal year, and
21 excluding unclaimed prizes and interest earnings in all five
22 years.

23 Again, excluding unclaimed prizes and interest
24 earnings and assuming the reserves remain unspent, our
25 projected contribution to education for fiscal year 2025-26

1 is 1.99 billion dollars, which would fall short of the 5-
2 year average by \$54.9 million dollars.

3 As shown on this slide, the Lottery did not meet
4 the five-year average provision in fiscal year 2019-20,
5 missing the requirement by \$151.4 million. That shortfall
6 was due to various factors, including consumer behavior
7 shifting to solely purchasing essential goods following the
8 onset of the pandemic and the Lottery subsequently not being
9 able to keep up with the increased demand for Scratchers
10 tickets once consumers adapted to the new normal and looked
11 for accessible forms of entertainment.

12 The contribution to education for fiscal year
13 2019-20 was also impacted by unusually low jackpots
14 experienced that fiscal year in both Mega Millions and
15 Powerball.

16 The abnormally low contribution to education in
17 fiscal year 2019-20 has been lowering the 5-year average
18 calculation since. With 2019-20 now dropping out of the
19 calculation, the five-year average we are required to meet
20 is higher. Additionally, outside of extraordinary
21 circumstances, the Lottery's growth in revenues and the
22 resulting contribution to education is beginning to level
23 off, as compared to the significant annual growth achieved
24 the first several years following enactment of AB 142.

25 This plateauing growth, combined with the

1 unexpected performance we achieved in four of the last five
2 fiscal years that are in the calculation results in the
3 Lottery's budget presented to the commission for fiscal year
4 2025-26 coming up short compared to the average contribution
5 to education for the preceding five years.

6 The 2020-21 and 2021-22 fiscal years are the first
7 two years in the calculation. And as mentioned, each of
8 those years have been -- we experienced something that we
9 shouldn't -- we wouldn't expect to experience in other
10 years.

11 So, specifically, in both those years, the
12 contribution was unusually high due to the pandemic-fueled
13 surge in Lottery sales that was caused by consumers being
14 either unable or unwilling to participate in other forms of
15 entertainment and leisure.

16 Additionally, both the 2022-23 and 2023-24 fiscal
17 years experienced unusually high contributions to education
18 due to a statistically rare occurrence of jackpots of over
19 \$1 billion in Powerball and Mega Millions during each of
20 those years. Specifically, in 2022-23, we had 7 different
21 draws that had an advertised jackpot of \$1 billion or more,
22 and there were 13 such draws in fiscal year 2023-24. And by
23 comparison, there have been only two draws in this current
24 fiscal year for which the advertised jackpot has been \$1
25 billion or more.

1 In requiring the commission-approved budget to be
2 compared to the contribution to education from the previous
3 five fiscal years, the Legislature recognized there will be
4 occasional years in which the Lottery's contribution to
5 education declines due to circumstances beyond the Lottery's
6 control. However, it does not appear it was contemplated
7 that as growth inevitably begins to slow and then level off
8 over time, it becomes mathematically impossible for the
9 Lottery's budgeted contribution to education to exceed the
10 mean of the previous five years without making unreasonable
11 assumptions in the budget.

12 To that point, we would need to increase our
13 Scratchers goal for the coming fiscal year by approximately
14 \$280 million to net \$55 million more to education and meet
15 the 5-year average requirement.

16 Since Powerball, Mega Millions, and Super Lotto
17 Plus have a lower relative prize payout, we'd need to
18 increase the combined goal in this games by around \$133
19 million. And although \$133 million may not sound much,
20 relative to our \$9.1 billion total sales goal, to put this
21 into context, adding \$133 million to the Lottery's budget
22 for the big jackpot games equates to more than a month's
23 worth of expected sales in these games.

24 Another way to look at it is that adding the \$133
25 million would result in a combined sales goal in the jackpot

1 games of \$1.55 billion. And last fiscal year, 23-24, we
2 didn't see that level of jackpot game sales until after we
3 had all 13 draws over \$1 billion, which, as stated
4 previously, was a year with exceptional rollover luck.

5 Another important factor here is that our sales
6 goals translate into actions by various Lottery employees
7 throughout the Lottery, including more than 300 employees in
8 the field.

9 As you're aware, the Lottery's sales bonus program
10 provides an incentive to generate that extra push to exceed
11 goal. If the sales goal is reflected in our budget are
12 arbitrarily inflated, this would remove the drive for
13 employees to do even better, knowing the goals are
14 unachievable.

15 Another important fact is, upon commission
16 approval, we share our budget for the coming fiscal year
17 with the education community, which they in turn use in
18 their budgeting. If we purposely overstate our budgeted
19 sales projections, this could lead to shortfalls for the
20 education entities that are relying on this funding.

21 Now, besides growing sales, it would also be
22 possible for us to meet the five-year average on paper by
23 reducing our administrative expense by \$55 million.
24 Realistically, the only place within our budget that we
25 could make such a reduction would be our marketing budget

1 plan, and this, of course, would result in reduced sales,
2 which would compound the problem of not being able to meet
3 the five-year average.

4 So, all of this is to say how irresponsible it
5 would be for us to either assume higher sales growth or
6 drastically reduce our operating costs to meet the five-year
7 average provision.

8 As you are aware, the Lottery is working on
9 initiatives that will increase future sales and the
10 resulting contribution to education, and Jim discussed many
11 of these in his presentation of the Lottery's business plan.

12 As we work within the confines of the Lottery Act
13 to adopt new revenue opportunities such as these in the
14 future, we expect we'll once again meet the five-year
15 average provision. However, the cycle of slowing and then
16 plateauing growth in revenues and contributions to education
17 would eventually repeat, causing the Lottery's budgeted
18 contributions to education to again fall below the five-year
19 average.

20 Although AB 142 does not include any consequence
21 for failing to meet the five-year average provision, we of
22 course have a duty to disclose this matter in the spirit of
23 transparency, and we have shared this information within the
24 administration, in addition to sharing it here today.

25 My final slide shows how our sales and

1 contribution to education have trended over the last 24
2 completed fiscal years, and this chart also includes our
3 projection of how we'll end this current fiscal year, as
4 well as the proposed budget for the coming year, assuming
5 the reserves remain unspent.

6 This chart accounts for the different scales
7 between our revenues and contributions to education. The
8 gold bars reflect our sales revenue and the associated scale
9 showing on the left side of the chart, and the blue line
10 reflects our contribution to education, with its associated
11 scale showing on the right side of the chart.

12 The black vertical line on the chart
13 differentiates between before and after when AB 142 was
14 fully implemented. And not unlike me, that line is a little
15 off center. You can see that not only have our sales risen
16 sharply since AB 142 was enacted, but more importantly, our
17 contribution to education has increased significantly, which
18 was the whole point of AB 142. Even with our plateauing
19 growth, this clearly shows our projected sales and
20 contribution to education have trended upward, especially as
21 compared to the years prior to AB 142.

22 Before concluding, I'd like to recognize my team
23 that builds the Lottery's budget and tracks our financial
24 performance throughout the year. Although this team is
25 typically comprised of six analysts, we had one employee

1 recently retire and another is on extended leave, so a big
2 thank you to Francisco Soto, Greg Irbani (phonetic), Larry
3 Matias, and Ruth Soto for their excellent work on this
4 budget.

5 And welcome aboard our newest analyst, Lee
6 Kitching, who very recently joined the team and immediately
7 pitched in.

8 And I'd like to give a special shoutout to their
9 manager, the Lottery's budget officer, Bret Groso. Bret had
10 already been stretched extremely thin, covering for the two
11 analysts that we are currently down during this busiest time
12 of the year for the Budgets Team. Even so, Bret remained
13 unflappable when I told him on a Friday that the June
14 commission meeting was being canceled, and the May meeting
15 was being moved up almost two weeks.

16 So, Bret worked throughout that weekend and stayed
17 late each night the following week to crank out the various
18 products that feed into my presentation today. And he
19 answered -- very patiently answered all of my questions as
20 well.

21 So, there's no way we could've done -- been able
22 to meet this compressed timeframe without Bret's swift
23 action. So, a huge thank you to Bret.

24 **COMMISSIONER MILLS:** Huge thank you to Brett.

25 **DEPUTY DIRECTOR BUCHEN:** And with that, I ask for

1 your approval of the Lottery's 2025-26 Fiscal Year Budget.
2 Happy to answer any --

3 **CHAIR GARRISON-ENGBRECHT:** Thank you so much --

4 **DEPUTY DIRECTOR BUCHEN:** -- questions.

5 **CHAIR GARRISON-ENGBRECHT:** -- Nick.

6 I'll first open up to public comment. Are there
7 any -- is there anyone from the public who'd like to make
8 comment on the proposed budget?

9 Moving on, I'll open up to commissioner questions
10 and comments.

11 **COMMISSIONER MILLS:** I have a couple. Nick, first
12 of all, I also want to acknowledge with you and your team
13 the tremendous amount of work that goes into this budget. I
14 know that you guys are incredibly detailed and meticulous
15 with your numbers, and I really, really appreciate that. And
16 also, acknowledging that we are a bit early, so you did not
17 have as much time as you would like or you normally have to
18 pull these numbers together, so thank you to you and your
19 team for that tremendous effort.

20 I just have two kind of comments or maybe
21 requests. I think one request would be for us to think about
22 maybe the creation of some sort of guiding principles
23 document around the budget. And I think something like that
24 would be super helpful for us in getting us grounded, even
25 before we come in to review the budget -- some kind of

1 document that -- and maybe we co-create it together -- that,
2 you know, kind of -- because you talked through this
3 process, right, that you use -- that you use a bottom-up
4 process. You know, kind of summarizing your bottom-up
5 process.

6 What are, like, the values that go in, you know,
7 to this budget? What -- because your budget always reflects
8 your values, so what are the values that are in the budget?
9 Like, what are some of the kind of overarching key
10 assumptions that we're using around the growth and the
11 estimates?

12 And I'm talking just, you know, kind of at the
13 high -- I know there's a ton of assumptions that go into
14 this budget, but what are those key, like, top-line
15 assumptions that we should really understand and know that
16 also kind of tie in, you know, to those values? How do we
17 think about how the budget correlates to the business plan?
18 Where are those places where we can make those -- you know,
19 those connections?

20 And then, finally, like, what are all the
21 regulatory requirements that we should be paying attention
22 to -- whether we agree with them or not? There's -- I think
23 there are several and just having kind of one place that
24 sort of just summarizes all of that -- that would be great
25 to kind of -- even before -- because this is so much. Right?

1 And even, like, maybe the meeting before the budget comes
2 that we kind of -- we have, like, an informational session
3 that says, okay, here. Remember, budget is coming next
4 meeting and here is how we're going to approach the budget
5 and all the things that we believe are important and that
6 you -- the commission believes are important.

7 And that would also give us -- like, if anything
8 changes about anything, it would give us an opportunity to
9 provide that sort of input even before you guys go into
10 budgeting. I can't, at this moment, imagine what that would
11 be, but it would provide an opportunity. Right? And it would
12 get us kind of prepared again about this is what you should
13 expect when we bring the budget forward and how we're going
14 to think about the budget.

15 And I'd be happy to -- you know, to participate in
16 that. I'd even volunteer maybe to -- I'm going to volunteer
17 my colleague here on the Audit Committee. Like, you know,
18 maybe that's something the Audit Committee could help kind
19 of, you know, work with the team to co-create as just
20 another kind of internal control and something that would be
21 just a helpful resource for the -- you know, for the board.
22 So, just something to think about.

23 And then, the second thing is -- I know this one
24 kind of regulation that is difficult for us to meet every
25 year. And thank you for kind of outlining all of the reasons

1 why the budget is what it is and why it's out of compliance.
2 That is super helpful. I will say -- and this isn't going to
3 be surprising to anyone here -- I do have a philosophical --
4 I just have a philosophical struggle with approving a budget
5 that's non-compliant, and so, I'm pushed and pulled, but I
6 understand, you know, why you're bringing forward what
7 you're bringing forward.

8 But I would ask, like, if there is a regulation
9 out there that doesn't make sense that we do everything we
10 can to advocate to try to have that regulation either
11 removed or changed in a way that we can actually meet it.
12 Because I do think one of our core values is compliance.
13 Like, we want to be compliant. And I think that's my
14 philosophical challenge is that I know that we value
15 compliance. I know we want to be compliant. And yet, I'm
16 being asked to approve a budget that is, like, clearly not
17 compliant. And that's just really hard for me.

18 So, I will, in the next couple of minutes, as we
19 wrap this up, I will reconcile that and decide what to do.

20 **DEPUTY DIRECTOR BUCHEN:** Okay.

21 **COMMISSIONER MILLS:** Thank you.

22 **DEPUTY DIRECTOR BUCHEN:** Thank you.

23 **COMMISSIONER ALVIDREZ:** Thank you so much. Again,
24 I echo all of the thanks and appreciation for all of the
25 hard work and the contributions after hours, on weekends.

1 I'm sure it took a herculean effort to pull this together,
2 so thank you for that.

3 And just to kind of double down on the last piece
4 that my colleague said about AB 142 and some of the
5 regulatory challenges that we're facing, I appreciate
6 particularly this last slide where it talks about sales and
7 contributions to education and it clearly shows the
8 demarcation of, you know, pre-AB 142, post-AB 142, and that
9 we see those upward trends.

10 **COMMISSIONER MILLS:** Yeah.

11 **COMMISSIONER ALVIDREZ:** AB 142 functioned in the
12 exact way that we'd hoped, however, we are now facing this
13 issue of a law of diminishing returns, and I think that my
14 colleague spoke to something beautifully, where she talked
15 about one of our core values is to be in compliance and the
16 tension that she's wrestling with, as it relates to, you
17 know, the way we put together these budgets and the fact
18 that we are obviously out of compliance.

19 Just to speak to that a little bit, I think that
20 there is clearly an effort -- an annual attempt -- to be in
21 compliance. If the challenge -- if our primary challenge of
22 being in compliance is that we fundamentally have a
23 structural issue in this AB 142, this regulatory framework
24 that's been enacted -- if we have a structural issue with
25 statute, then clearly, we need to prioritize addressing or

1 changing that structural barrier. As we work to do that,
2 this is what is before us.

3 And so, I get the tension and the wrestling, but
4 this is what's before us as we work to address the
5 structural barrier, and that structural barrier has time,
6 conversations, education -- any number of other external
7 factors that contribute to the ability to make that change.

8 So, I just wanted to make sure that I said that
9 comment for the record, to acknowledge the tension, but to
10 also acknowledge kind of where we are. So, thank you.

11 **CHAIR GARRISON-ENGBRECHT:** Okay. Thank you.

12 I'm going to open it up to Director Chima to
13 provide some comments.

14 **DIRECTOR CHIMA:** (Inaudible).

15 **CHAIR GARRISON-ENGBRECHT:** Is that okay? Okay.
16 Perfect. Thank you both for your comments.

17 And in a similar vein as my commissioner
18 colleagues, I have some statements I'm going to also put on
19 record in support of your work over the last few weeks. I
20 know it's been a lot of time and pressure for you and your
21 team and the entire Lottery team here at headquarters, and
22 so, I really want to make sure that we do our due diligence
23 in thanking you all.

24 As we know, we're currently without a fifth
25 commissioner. As we wait the appointment for a replacement

1 of former commissioner Ahern, without the fifth person, it's
2 really difficult to reach quorum. Three out of four of us
3 can be a challenge when there is any kind of wrinkle in
4 someone's schedule. The situation is what we're facing today
5 is that we had to move up this presentation and cancel our
6 June meeting. We would normally consider the passage of a
7 budget for the next fiscal year, which starts on June 1,
8 next month. So, I appreciate your time in presenting early.

9 To that end, this is why it's necessary to move
10 this typical timeline the way we did while we faced
11 contemplating a budget in early May with some preliminary
12 estimates, rather than in June. The Lottery team worked
13 diligently to put together a proposed spending plan, despite
14 the tight timeline to make this happen -- even without final
15 sales data and other key, but yet -- not yet available
16 inputs.

17 I want to express my gratitude to the -- all the
18 Lottery staff who put their other priorities aside to make
19 this happen. I'm confident in the plan being put forward at
20 this time and also confident that we should -- need to
21 revisit the budget because of new insights or data -- that
22 we can do that in a future commission meeting in the fall.
23 Thank you Lottery team on a very difficult, but job well
24 done.

25 The other thing I want to make note of is the

1 five-year average issue that has been brought up by my
2 fellow commissioners. As we heard from our CFO today and
3 unrelated to our schedules, we know that the current
4 proposed budget does not meet the five-year average
5 requirement that's part of AB 142, the legal provision that
6 requires the Lottery's net revenue set aside for public
7 education for a given fiscal year be at least as much as the
8 average of the amount allocated to schools in the prior five
9 fiscal years.

10 We heard today from Nick why this budget does not
11 meet that requirement, and why it would not be prudent or
12 fiscally responsible to forecast sales growth that, simply
13 put, is not anticipated for a variety of reasons. Nick, to
14 your credit, explained the various reasons why this
15 provision may not be met in next year's budget.

16 First, extraordinary pandemic and the impact that
17 we had -- that that had on Lottery sales -- something like
18 that could not have been contemplated by California State
19 leaders when considering the passage of AB 142 in 2010.
20 Secondly, the extraordinary luck California was afforded
21 that not long ago, with an unprecedented number of billion-
22 dollar jackpots, as you noted, and the resulting higher-
23 than-predicted boost that had on sales.

24 Together, these extenuating circumstances
25 dramatically increased the five-year average in the

1 Lottery's contribution to education. Factors like these also
2 help explain why the Lottery's contribution to education
3 fluctuates from year to year and cannot realistically be
4 expected to grow exponentially each year.

5 I appreciate the Lottery's conservatism when
6 budgeting. It would not be right to inflate numbers on paper
7 simply to meet this provision. AB 142 does not include any
8 penalty for failing to meet this provision, and I appreciate
9 the Lottery's transparency both with us and the commission
10 on that level and also with our administration that public
11 comments matter.

12 AB 142 was intended to allow the California
13 Lottery to responsibly raise even more money for public
14 education than it had been able to prior to this
15 legislation. And I'm thrilled it's having its intended
16 impact and the fact that it's clear the Lottery is nothing
17 if not committed to the mission to raising money for public
18 schools. That's evident and I'm proud to be a part of it and
19 appreciate the thoughtfulness that goes into the budget
20 matters, including the challenges with this one particular
21 piece to support the conversation that part of our ongoing
22 work will be to look at the structural issues that create
23 this issue for you on a budgeting front.

24 And so, Nick, thank you for your work. Thank you
25 to your team for your support and putting this budget

1 together.

2 **DEPUTY DIRECTOR BUCHEN:** Uh-huh. Thank you.

3 **DIRECTOR CHIMA:** I know this is unprecedented, but
4 I did want to take a moment also and thank my team. The
5 chair touched on this a little bit -- about our scheduling
6 challenges -- but to kind of put it into perspective, my
7 team had about a day and a half to determine which items
8 should be brought forward at this meeting and which ones we
9 could wait on until the September meeting because of the
10 posting requirements for public meetings. And they rallied
11 together and everybody on their team worked very hard to
12 pull together and get the memorandums done, and I just want
13 to say how incredibly proud I am of every one of them and
14 their respective teams.

15 As Nick mentioned, the budget team had to pull
16 together, work over the weekend -- because before they can
17 bring a budget to you all, they have to run it by Flo and I
18 -- the chief deputy and I, and answer all of our questions.
19 And so -- and the same goes for Business Planning and just
20 basically -- you know, we did a presentation with Jim and
21 the new assistant deputy director, Kayla. And again, they're
22 walking us through the metrics that they're looking at and
23 the research that they considered in preparing the business
24 plan.

25 And I just want to say how incredibly proud I am

1 of all of them and everybody that presented today because we
2 were on a very, very short timeline, but they pulled it
3 together.

4 So, thank you, Chair, for allowing me to take some
5 time to just address that.

6 **CHAIR GARRISON-ENGBRECHT:** (Inaudible).

7 Are there any additional comments from the
8 commissioners?

9 Do I hear a motion to approve Action Item 8(k),
10 Fiscal Year 2025-2026 Budget?

11 **COMMISSIONER ALVIDREZ:** Motion to approve.

12 **CHAIR GARRISON-ENGBRECHT:** Second? I'll second.

13 **COMMISSIONER ALVIDREZ:** Thank you.

14 **CHAIR GARRISON-ENGBRECHT:** Will the Secretary
15 please call the roll?

16 **MS. SARWARI:** Commissioner Mills?

17 **COMMISSIONER MILLS:** A heart-wrenching abstention
18 -- I abstain.

19 **MS. SARWARI:** Commissioner Alvidrez?

20 **COMMISSIONER ALVIDREZ:** Yes.

21 **MS. SARWARI:** Chairman Garrison-Engbrecht?

22 **CHAIR GARRISON-ENGBRECHT:** Yes.

23 Thank you, Nick.

24 **DEPUTY DIRECTOR BUCHEN:** Thank you.

25 **COMMISSIONER ALVIDREZ:** Thank you.

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COMMISSIONER MILLS: Thank you, Nick.

CHAIR GARRISON-ENGBRECHT: The next item on the agenda is Item 11, Public Discussion. Have we received any public comment cards?

FEDEPUTY DIRECTOR FERNANDEZ: No.

CHAIR GARRISON-ENGBRECHT: Okay. Perfect.

Seeing none, we'll move on to adjournment. The next scheduled meetings for this coming year are September 25, November 20 -- all will be held here in Sacramento.

Meeting is adjourned. Thank you for being here.

(End of Recording)

(MEETING ADJOURNED)

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