

# California State Lottery Commission

Minutes – June 27, 2024

Sacramento, California

## 1. **Call to Order**

Chairman Gregory Ahern called the meeting of the California State Lottery Commission to order at 10:05 a.m.

## 2. **Pledge of Allegiance**

Chairman Ahern led the Pledge of Allegiance.

## 3. **Roll Call**

Chairman Ahern asked Elisa Topete to call the roll.

Commission Member Present:

Chairman Gregory Ahern

Vice Chair Keetha Mills

Commissioner Tiffani Alvidrez

Commissioner Anthony Garrison-Engbrecht

California State Lottery staff and presenters:

Harjinder K. Shergill Chima, Director

Daniel Pott, Staff Counsel

Sharon Allen, Deputy Director of Sales and Marketing

Jim Hasegawa, Deputy Director of Business Planning

Nicholas Buchen, Deputy Director of Finance

Elisa Topete, Assistant to the Commission

Rebecca Estrella, Recording Secretary

Chairman Ahern congratulated Director Chima on her appointment, which was recently approved by the Senate Rules Committee on June 19<sup>th</sup> by a vote of 3-0. He thanked Director Chima for her leadership.

## 4. **Election of Chair and Vice Chair of the California State Lottery Commission 2024-25**

Chairman Ahern asked Staff Counsel Pott to review the rules on running the elections. Staff Counsel Pott stated the rules, according to the California State Lottery Act, provide that the Commission shall elect annually from its membership a Chairperson and Vice Chairperson of the Commission. It takes a minimum of three Commissioners to conduct the vote, and a majority of votes to take action. Chairman Ahern stated that a nomination was received for Commissioner Garrison-Engbrecht for Chairman, and a nomination was received for

Commissioner Mills to remain as Vice Chair. Staff Counsel Pott resumed reviewing the remaining election rules. Chairman Ahern declared the nominations closed and asked for a vote by roll call. Both nominations were approved unanimously.

Commissioner Mills commented about the lack of rules, requirements, or processes for nominations and asked if Lottery staff could put together some best practices regarding officer elections and rotating leadership. She asked for a motion to be made. Chairman Ahern stated that a motion was not needed and asked Lottery staff to research best practices and report back. Commissioner Alvidrez agreed and suggested the findings be presented at the September meeting. Staff Counsel Pott acknowledged and accepted the assignment. Commissioner Mills and Chairman Ahern agreed.

**5. Consider Approval of the Agenda**

Chairman Ahern stated that Action Item 9c, Amendment to Add Funds to Z Squared Construction Agreement for Completion of the Northern Distribution Center Remodel, was pulled from the agenda. He asked the Commissioners if anyone had any additional changes to the agenda. Chairman Ahern asked for a motion to adopt the amended agenda. Commissioner Garrison-Engbrecht made a motion, and Commissioner Mills seconded. The amended agenda was approved unanimously.

**6. Approval of the Minutes**

Chairman Ahern asked if there were any corrections to the minutes of the May 23, 2024, Commission Meeting. Commissioner Mills made a motion to approve the minutes, and Commissioner Alvidrez seconded. Elisa Topete called the roll. Commissioner Garrison-Engbrecht abstained. The minutes of the May 23, 2024, meeting passed.

**7. Informational Items**

a. Director's Comments

Director Chima began her presentation by sharing that the Lottery is on track for another record-breaking year. Two weeks prior, total Lottery sales surpassed \$9 billion, a milestone only achieved once before, just last year, and projections for the remainder of the fiscal year look to hit a new high due to several billion-dollar jackpots from multi-state games. The largest jackpot this year came from Powerball at \$1.7 billion, won by a group in Frazier Park. Scratchers, which make up 70 percent of total Lottery sales, stand at just \$25 million below goal, still showing growth from last year. All but two draw games have exceeded expectations this year, thanks to strong top prizes and cross-play.

The Director reiterated the mission of the Lottery is to support California's public schools and to provide supplemental funding. As of the end of May, the Lottery

hit \$2 billion to education, the third year in a row that goal was accomplished. The Director cited the hard work of staff and stated that the Lottery will continue to work towards its goals to maintain more than \$2 billion to public education without any exceptional events, such as rare jackpots or a pandemic.

8. **Consent Calendar**

There were no items on the consent calendar.

9. **Action Items**

a. **Corrected Scratchers Core Game Profile Templates**

Sharon Allen, Deputy Director of Sales and Marketing, provided an overview on four templates the Lottery utilizes in the creation of Scratchers games. These templates define the overall financial structure for each game, including information such as potential revenue, prize tiers, odds, and prize payout. Scientific Games, the Lottery's primary Scratchers printing vendor, created 18 new templates that were approved in May's Commission meeting, including templates for new \$25 and \$40 games. Scientific Games notified the Lottery that it had identified errors in eight of the templates created for the new price categories. The errors were with formulas that would not have been visible to Lottery staff during its review process. The errors were identified before the templates were used to create games, so no games were created or printed with the flawed templates. Scientific Games returned corrected templates within three days of identifying the errors. The corrected templates remain within the scope of the original payout range and have the same top prize. It was also confirmed there were no errors in any of the other templates approved in the May meeting.

Scientific Games is now implementing a corrective action plan to enhance its quality assurance process to ensure the accuracy of templates going forward. They will also conduct an extensive review of all Lottery templates and leverage proprietary software to its review to ensure accuracy in current and future templates. Lottery staff will also develop a new process to enhance the review of new templates developed by vendors to double-check key information and calculations. Lottery staff recommended that the Commission approve these eight corrected Scratchers templates.

Chairman Ahern asked if anyone had any questions.

Commissioner Mills asked Ms. Allen what the vendor is going to do to enhance their controls to make sure this doesn't happen again, and what the Lottery can do to enhance the review process or testing to make sure that what is presented to the Commission to approve is accurate. Ms. Allen said the Lottery will take

additional review steps with all vendors that develop templates. Scientific Games is enhancing its quality assurance process to make sure everything is accurate, including an extensive review of all current templates and new steps using a proprietary software to double-check all the formulas.

Commissioner Mills asked several questions, including whether this had ever happened before and whether Scientific Games serves other lotteries. Ms. Allen reported that it hasn't happened before in California and the vendor is one of the leading providers in the world.

Chairman Ahern asked if there were any other questions.

Commissioner Alvidrez commented that as disconcerting as the errors are, it is encouraging to know that there is a process and that the process does work. Ms. Alvidrez said she appreciated the transparency in the reporting of the problem, that the problem has been corrected, and adjustments will be made in the future.

Chairman Ahern asked if there were any other questions or comments or if any member of the public wanted to address the Commission at this time regarding Action Item 9(a). No one responded, so he proceeded to the motion.

Commissioner Alvidrez made a motion to approve Action Item 9(a), and it was seconded by Commissioner Garrison-Engbrecht. The motion passed unanimously.

b. Extension of the Circus LAX, LLC (DBA Media.Monks) Contract

Sharon Allen, Deputy Director of Sales and Marketing stated that the Lottery currently contracts with Circus LAX, LLC, otherwise known as Media.Monks for Hispanic Advertising and Marketing Services. In 2019, the Commission awarded Media.Monks a five-year contract for these services, with an initial contract expenditure authority of \$30 million, and two one-year extension options. Ms. Allen informed the Commission that exercising the first one-year contract extension option now will enable the Lottery to continue essential marketing efforts without interruption. Over the course of the current contract, Media.Monks has consistently provided a high level of service and expertise. Further, she said, extending the Media.Monks contract will allow Lottery staff to stagger the procurement efforts and provide sufficient time to develop and release the Hispanic Advertising and Marketing Services RFP at a later date. The contract has approximately \$8.7 million of funding currently available in the remaining contract term, so there will be sufficient funding for the extension period. Lottery staff recommended that the Commission approve a one-year extension of the Media.Monks contract, extending the contract through October 17, 2025, with an unchanged maximum authorized contract expenditure authority of \$30 million.

Chairman Ahern asked if any Commissioners had any questions. There were none. He asked if any member of the public wanted to address the Commission at this time regarding Action Item 9(b). No one came forward, so he proceeded to the motion.

Commissioner Garrison-Engbrecht made a motion to approve, and Commissioner Alvidrez seconded. The motion passed unanimously.

c. Amendment to Add Funds to Z Squared Construction Agreement for Completion of the Northern Distribution Center Remodel

Item was pulled from the agenda.

d. Fiscal Year 2024-2025 Business Plan

Jim Hasegawa, Deputy Director of Business Planning, presented the Business Plan for Fiscal Year 2024-25. A Draft Plan was presented as an informational item at the May 23 Commission meeting to allow time for Commissioners to provide feedback, request additional information, or ask questions. There were no significant changes from the Draft Business Plan. Mr. Hasegawa provided five objectives for Fiscal Year 2024-25 and gave additional details about some of the strategies and tactics to support those objectives in the upcoming fiscal year. The Business Plan was developed to enable the Lottery to increase the amount of supplemental funding provided to California public schools through responsible growth and by following the Lottery's mission, vision, and values.

Mr. Hasegawa stated that the first objective is to complete planning and begin celebrating the Lottery's 40<sup>th</sup> anniversary. Although the first day the California Lottery began selling tickets was October 3, 1985, the plan will be to extend the anniversary celebration across 2025. To commemorate the Lottery's 40<sup>th</sup> anniversary, a special anniversary-themed Scratchers game with a \$40 price point is slated to launch in January 2025, marking the first game sold by California that will be above \$30. There will also be a \$2 Scratchers game themed around the anniversary to launch in January. During 2025, other product launches will help support the anniversary by bringing back some player favorites. The Scratchers Product Plan is slated to have a total of 53 different games introduced next fiscal year.

Mr. Hasegawa stated that the second objective is to expand Scratchers sales by removing barriers to play among infrequent players. One of the Lottery's biggest initiatives is to reposition the Scratchers product category so consumers will think more about the fun and play value of the games, not just about winning prizes in the ticket. Another barrier is that consumers typically don't carry cash. Currently, Lottery tickets can only be purchased with cash, so a plan is in process to develop a pilot program to enable some of the Lottery's self-service machines to accept debit cards for payment.

The third objective is to increase Jackpot game sales, which include the two multi-state games, Powerball and Mega Millions, as well as the Lottery's in-state SuperLotto Plus game. In the current year, with both Mega Millions and Powerball, there were 13 draws where the jackpot was \$1 billion or higher. Mr. Hasegawa stated that one reason for larger jackpots is due to higher interest rates which lead to higher annuity factors and fewer dollars needed from sales to fund the jackpots than a few years ago. He explained how rollover luck is calculated for the current year. For the Mega Millions game, rollover luck was at the 78<sup>th</sup> percentile this year. This current fiscal year, Powerball had even better rollover luck, coming in at the 96<sup>th</sup> percentile, almost as high as it can possibly get. The Mega Millions Consortium continues to look at potential enhancements for that game. This year's Hot Spot sales will be about \$14 million higher than last year. The Lottery will continue to explore options for enhancing existing draw games.

The next business objective is to explore new ways to expand and utilize the Lottery's strong retail network. A new trade channel the Lottery is working to recruit is high-end stores connected to electric vehicle charging stations. Staff are also working to expand presence in the sports bar segment for Hot Spot. To improve the Lottery's presence in existing locations, a couple of pilot tests for new digital signage will be undertaken. The Lottery will be receiving equipment and support for digital menu boards and digital play centers at 50 locations.

Mr. Hasegawa also provided information on a pilot project known as Smart Count, a software that helps retailers track activated Scratchers inventory. It also allows the retailers to deactivate their tickets at night after closing, which prevents the unlawful cashing of prizes if tickets are stolen and sends a real-time, automated alert to the Lottery's law enforcement division.

A long-term objective is to develop new models for doing business with potential new retailers. The first step is to better understand what the barriers are, so we can develop new ways of working with them.

The final objective is to continue to improve knowledge and perceptions about the Lottery. In January of 2024, the Lottery's Communications division began using paid media to educate the public about the Lottery's mission and our public benefit to Californians. The current year's effort first concentrated radio and video efforts in just two specific markets, Fresno and San Diego, and utilized social media with both static and video assets in both English and Spanish statewide. The plan for Fiscal Year 2024-25 is to scale up the effort, adding some frequency and broadening the reach.

Mr. Hasegawa stated that in many cases, a lot of these initiatives involve upgrading technology. He gave some examples of updated automated forms

processes in the Lottery's HR Division that have replaced the manual paper processes, making internal operations more efficient and effective.

Mr. Hasegawa concluded by saying that the Business Plan overall allows the Lottery to generate increased sales and contributions to education, not just in the upcoming year, but also allowing for future growth.

Chairman Ahern asked if any of the Commissioners had any questions.

Commissioner Alvidrez commented about the retailer initiatives and said she is really looking forward to the results of the research that will identify barriers to doing business with the Lottery.

Commissioner Mills asked about automating some HR functions and what are some of those technological barriers. Ms. Mills asked how the Lottery can get to a place of not just catching up on back-office technology, but rather being proactive and looking ahead. Ms. Mills mentioned AI and asked if the Lottery is exploring that. Mr. Hasegawa replied that the budget from a dozen years ago didn't allow as much administrative funds to be spent on infrastructure-type projects. Now, with current sales levels, there are additional funds to invest in infrastructure projects, some of which are multi-year. Commissioner Mills commented that it's not just sales that drives contributions to education, it's also the efficiency and the cost savings, and the Lottery should think equally about both.

Chairman Ahern asked if any member of the public had any questions regarding Action Item 9(d). No one came forward, so he proceeded to the motion. Commissioner Garrison-Engbrecht made a motion to approve, and Commissioner Alvidrez seconded. The motion passed unanimously.

e. Fiscal Year 2024-2025 Budget

Nick Buchen, Deputy Director of Finance, provided an overview of the Lottery's Fiscal Year 2024-25 Budget. He stated that the budget is a basic formula, comprised of four major components: ticket sales revenue, minus the associated prize expense, minus administrative expenses; all of this equals the Lottery's contribution to education. Mr. Buchen provided a summary of the major components of the budget, which are sales, prize expense, and administrative expenses, and the reasons for the year-over-year funding changes. Mr. Buchen compared estimated revenues and expenditures for the 2024-25 Fiscal Year through an estimate of how the Lottery will end this current fiscal year on June 30. He walked through each of the main sections of the budget separately, provided details and summarized the changes from the Draft Budget he presented last month. Mr. Buchen stated that our Administrative Expenses are capped by the Lottery Act at 13 percent of total sales. He provided additional detail on retailer compensation, gaming costs, and operating costs.

Commissioner Mills asked what the Retailer Administrative and Gaming Fee was. Mr. Buchen replied that the Lottery charges fees to retailers to display monitors in their locations.

Commissioner Alvidrez asked if the vacancy rate is in line with the vacancy rate for other departments and agencies, what their average vacancy rates are and if the Lottery's is higher or lower. Mr. Buchen replied that it is lower, noting the statewide average was over 20 percent.

Commissioner Mills asked if the Lottery anticipates any financial impact from people returning to the office, or other offsets of costs we incurred for being remote. Mr. Buchen replied that the largest impact is additional IT equipment such as monitors and keyboards. He also noted that the Lottery has exceeded capacity in its Headquarters building, so there will likely be some cubicle reconfigurations. Ms. Mills asked if those would be additional costs this year to come out of the Administrative Reserve. Mr. Buchen replied that some funding was already included for these in operating costs.

Mr. Buchen stated that the budget projecting a contribution to education of more than \$2 billion is particularly important; it's one of the Lottery's strategic financial goals to grow sales so that contributions to education consistently exceed \$2 billion without relying on any extraordinary circumstances to reach those levels.

Mr. Buchen concluded his presentation by recognizing and thanking his team that builds the Lottery's budget and tracks our financial performance throughout the year. He asked for approval of the Lottery's 2024-25 Fiscal Year Budget.

Chairman Ahern thanked Mr. Buchen and asked if any of the Commissioners had any questions regarding the budget.

Commissioner Alvidrez asked Mr. Buchen to explain the difference between sales and contribution pre-AB 142, and what the gap represents. Mr. Buchen replied that AB 142 was the legislation that combined the allocation to both prizes and education as being 87 percent of our total revenues. Prior to AB 142, the Lottery was required to provide a fixed 50 percent of its revenues in the form of prizes.

Chairman Ahern asked if there were, any other questions. There were none.

Chairman Ahern asked if any member of the public wanted to address the Commission regarding Action Item 9(e). No one came forward, so he proceeded to the motion.

Commissioner Mills made the motion to approve Action Item 9(e), and it was seconded by Commissioner Garrison-Engbrecht. The motion passed unanimously.



**10. Commissioner General Discussion**

Chairman Ahern asked the Commissioners if they had anything they would like to discuss. Commissioner Garrison-Engbrecht stated he would like to recognize that it was Elisa Topete's last day at the Lottery, and that she was retiring after serving 22 years. He thanked Elisa for her commitment to the Lottery, her amazing support of the team on the dais, and wished her the very best in her retirement.

**11. Scheduling Next Meetings**

The next Commission meetings are tentatively scheduled for September 26 and November 21, 2024.

**12. Public Discussion**

Chairman Ahern asked if there was any public discussion. No one came forward to speak.

**13. Adjournment**

Meeting adjourned at 11:35 a.m.