

# California State Lottery Commission

Minutes – May 13, 2025

Sacramento, California

## 1. **Call to Order**

Commissioner Chair Anthony Garrison-Engbrecht called the meeting of the California State Lottery Commission to order at 10:13 a.m.

*(Delayed start because Chairman Garrison-Engbrecht was stuck in traffic due to road construction)*

## 2. **Pledge of Allegiance**

Chairman Garrison-Engbrecht led the Pledge of Allegiance.

## 3. **Roll Call**

Chairman Garrison-Engbrecht asked Farida Sarwari to call the roll.

### Commission Members Present:

Chairman Anthony Garrison-Engbrecht

Vice Chair Keetha Mills

Commissioner Tiffani Alvidrez

### California State Lottery Staff and Presenters:

Harjinder K. Shergill-Chima, Director

Fernando Aceves, Chief Counsel

Jean Cooper, Deputy Director, Operations Division

Chris Lopez, Acting Deputy Director, Information Technology Services Division

John Lowden, Deputy Director of Security and Law Enforcement Division

Sharon Allen, Deputy Director of Sales and Marketing Division

Jim Hasegawa, Deputy Director, Business Planning & Research

Nicholas Buchen, Deputy Director, Finance

Rebecca Estrella, Recording Secretary

Farida Sarwari, Assistant to the Commission

## 4. **Consider Approval of the Agenda**

Chairman Garrison-Engbrecht changed order of agenda, making item 9 Public Discussion, Item 10 Commissioner's Discussion and Item 11 Scheduling of Next Meetings. Chairman asked if the Commissioners had any suggestions or changes to today's agenda. There were no changes, so Commissioner Alvidrez made the motion to approve the agenda, and it was seconded by Commissioner Mills. The motion passed unanimously.

## 5. **Approval of Minutes**

Chairman Garrison-Engbrecht asked if there were any corrections to the minutes of the March 27, 2025, Commission meeting. No corrections were noted. Commissioner Mills made the motion to approve the minutes, and it was seconded by Commissioner Alvidrez. The motion passed unanimously.

## **6. Informational Items**

### **a. Directors Comments:**

Director Chima provided an update on the Lottery sales, stating the California Lottery has contributed an estimated \$1.45 billion to education - \$12 million short of its goal, representing approximately half a billion dollars to education every quarter this year. If the current pace continues, contributions may exceed \$2 billion for the fourth consecutive quarter.

Total sales through early May are about \$7.5 billion, slightly below goal, mainly due to lower-than-expected Powerball performance. The highest Powerball jackpot this year was \$515 million, won in late March, and another was hit on April 26<sup>th</sup>. There have been Powerball jackpot wins nationally this fiscal year – the highest in five years – leading to smaller jackpots and lower sales.

Scratchers are 1% over goal, resulting in a \$63 million surplus, with strong performance in the \$10 and \$30 price points, both exceeding their goals by over 20%. Popular games like \$10 50X the Cash and \$30 Crossword Extreme have driven their success.

Mega Millions and Super Lotto Plus are near goal despite smaller jackpots. Mega Millions sales are now averaging 17% higher than at a similar jackpot level before recent game enhancements.

Daily Games (Daily 3, Daily 4 and Fantasy 5) are all exceeding individual goals. Hot Spot is slightly below goal but is still generating more revenue than last fiscal year.

## **7. Consent Calendar**

There were no items on the consent calendar.

## **8. Action Items**

### **a. Amendment to Add Funds and Extend Time to LPAS, Inc. Agreement to Support Architectural and Engineering Services**

The Lottery is requesting additional funding for a one-year extension for the Northern Distribution Center (NDC) remodel project. Following new guidance from the State Fire Marshal in January 2025, the Lottery must

implement a new fire pump to meet updated life and safety requirements. The team has finalized the necessary requirements, and the requested amount reflects those needs.

Commissioner Mills asked if this would be the final amendment and cost estimate for the project. Deputy Director Cooper confirmed it was, based on current guidance from the State Fire Marshal.

With no public comment, Commissioner Alvidrez moved to approve action item 8(a) and was seconded by Commissioner Mills. The motion passed unanimously.

b. Epicor Maintenance and Operations Contract Amendment

The Lottery is requesting approval to extend its current Epicor Maintenance and Operations Contract by one year, through June 30, 2026, with no additional funds requested. Epicor has supported the Lottery's financial and procurement systems since 1999, with the current version (Epicor 10) in place since 2018. Extending the contract allows continued support at a lower hourly rate of \$180 (versus Epicor's current \$240) and gives the Lottery time to negotiate a better long-term agreement. The contract cap remains at \$484,000.

With no public comment, Commissioner Mills moved to approve action item 8(b) and was seconded by Commissioner Alvidrez. The motion passed unanimously.

c. ServiceNow Human Resources Service Center (HRSC) Implementation Services

The Lottery is seeking Commission approval to enter a \$3.5 million, two-year contract (with two one-year extension options) with Lume Consulting group to implement additional features in its ServiceNow HR Service Center. This marks Phase Two of the Lottery's HR modernization efforts, which began in fiscal year 2021-2022 to replace paper-based processes. Phase One successfully improved HR service tracking, response time, and organization-wide efficiency.

Phase Two will automate 37 more HR processes, including development, testing, and training. A competitive procurement process identified Lume Consulting Group as the best value vendor.

Commissioners praised the initiative, highlighting the expected return on investment, improved compliance, and system transparency. Concerns about compatibility with CalHR were addressed by HR leadership, who confirmed that current work won't be negatively impacted, and future state

payroll system changes (targeted for 2029) may offer integration opportunities.

Commissioners also asked about eliminating paper timesheets, which is already planned, and whether future phases or funding would be needed. The response indicated the Lottery aims to handle ongoing maintenance internally through added staff and training, minimizing the need for future external support.

With no questions from the Commission and no public comment, Commissioner Mills moved to approve action item 8(c) and was seconded by Commissioner Alvidrez. The motion passed unanimously.

d. Ratification of Lottery Headquarters Pavilion and Lobby Audio Visual Upgrade Contract

The California Lottery is requesting Commission ratification of a \$849,517.82 contract with Mergent Systems, Inc. to upgrade outdated audio-visual equipment at its headquarters, including the auditorium, pavilions, lobby, commission meeting room, and control room. The current equipment, installed in 2011, is obsolete, incompatible with modern tech, and prone to failure, affecting operations such as commission meetings and training.

The contract was approved under emergency provisions in Lottery Regulation 8.6.6.A. to meet procurement and installation timelines before the September 2025 commission meeting. Mergent was selected through a competitive process via the States CalNet program.

Commissioners expressed strong support, with specific appreciation for improvements to poor audio quality and excessive background noise. The work will be scheduled to avoid disrupting commission meetings.

With no public comment, Commissioner Alvidrez moved to approve action item 8(d) and was seconded by Commissioner Mills. The motion passed unanimously.

e. Draw Auditing and Review Services Contract

The Lottery is requesting approval to extend its contract with Melissa Preston, CPA for two additional years (through June 30, 2027) and increase the expenditure authority by \$705,600. Preston provides essential draw auditing services as required by law, including witnessing, verifying, and certifying lottery drawings.

Originally awarded in July 2022 through and RFP (where she was the sole

but highly qualified respondent), the contract was for three years at \$95/hour, totaling \$1,026,000. The two-year extensions come with a slightly higher rate of \$98/hour, increasing the total contract amount to \$1,731,6000, reflecting a modest 3% increase. Her services are customized to the Lottery's needs and have proved to be of high value and reliability.

Commissioner Mills inquired about the pricing of the contract with Melissa Preston, CPA, since she was the sole bidder. Deputy Director Lowden explained that the contract was awarded through a competitive RFP in 2022. Although only one bid was received, Preston's rates were well within the Lottery's industry pricing guidelines – 4.4% higher initially and 7% total with two-year extension, staying below the 14% threshold considered acceptable.

Lowden also noted that Preston's firm is highly reputable, providing auditing services for major lotteries such as Mega Millions and the Georgia Lottery. Preston is regarded as an industry leader. While pricing comparisons with other states were not available, the Lottery has had no issues with the vendor and values their reliability.

With no questions from the Commission and no public comment, Commissioner Alvidrez moved to approve action item 8(e) and was seconded by Commissioner Mills. The motion passed unanimously.

f. Silver Star Movers Inc., Bulk Carrier Contract Extension

The Lottery is requesting approval to extend contracts with three vendors for bulk delivery services used by its two distribution centers to ship Scratchers products and point-of-sale items to nine district offices. These bulk shipments (via pallets and large trucks) support field sales teams and are distinct from small parcel retailer deliveries. Reliable bulk shipping is crucial to avoid product shortages.

The contracts, originally awarded in 2022 through an IFB, each include a three-year term with two-year extension options. The Lottery now seeks to exercise the first extension for each.

Silver Star Movers handles bulk deliveries between the Southern Distribution Center and five Southern California district offices. Over the past three years, they've completed over 420 shipments reliably. The extension would run through September 14, 2026, with no change to the existing \$422,000 contract limit, as the remaining \$231,000 is expected to cover the extended term.

With no public comment, Commissioner Alvidrez moved to approve action item 8(f) and was seconded by Commissioner Mills. The motion passed

unanimously.

- g. Go-Getters Delivery, Inc., Bulk Carrier Services Contract Extension  
Go-Getters provides bulk delivery services from the Northern Distribution Center to four Northern California district offices. Over the past three years, they have completed over 170 shipments reliably and on time. The Lottery is requesting a one-year extension of the contract through June 14, 2026, with no increase to the existing \$320,000 contract limit, as the remaining \$230,000 is expected to cover the extension period.

With no public comment, Commissioner Alvidrez moved to approve action item 8(g) and was seconded by Commissioner Mills. The motion passed unanimously.

- h. Mytess Delivery Solutions LLC, Bulk Carrier Services Contract Extension  
The Lottery is requesting a one-year extension of its contract with Mytess Delivery Services for bulk deliveries between the Northern and Southern California distribution centers. Mytess has completed over 80 shipments, helping balance inventory based on regional sales demand. Due to forecasted volume, staff recommends increasing the contract's expenditure authority by \$400,000, bringing the total to \$800,000. The extension would run through June 21, 2026.

Commissioner Alvidrez questioned the doubling of expenditure authority in the one-year contract extension with Mytess and expressed concerns over not going out to bid again. Deputy Director Allen explained that the increase is due to a new shipping practice involving "auto ship," where products packed in the north will now be moved to the southern distribution center to be shipped locally, which is more cost-effective with FedEx's zone billing.

Deputy Director Allen acknowledged that this is a new approach, not yet implemented, and they will monitor its effectiveness. She also addressed Commissioner Alvidrez's concern about using multiple vendors and contracts, explaining that they tried to find a single vendor initially, but none could handle all the Lottery's regional and logistical needs. Hence, the solution had to be "Frankensteined" together.

Commissioner Alvidrez asked for accelerated monitoring and a more comprehensive shipping plan moving forward, which staff agreed to provide.

With no public comment, Commissioner Mills moved to approve action item 8(h) and was seconded by Commissioner Alvidrez. The motion passed unanimously.

- i. Firewood Marketing Inc. (dba Monks) Contract Extension  
The California Lottery contracts with Firewood Marketing (Monks) for Hispanic advertising and marketing services. Originally awarded in 2019 as a five-year contract with two one-year extension options and a \$30 million budget, the first extension was exercised in 2024. Monks has provided strong strategic and creative support for campaigns targeting Hispanic consumers and works closely with other agency partners on major initiatives like the Mega Millions enhancement and Scratchers repositioning.

To continue this momentum and avoid disruption, staff recommends approving the second one-year extension, extending the contract through October 17, 2026, and increasing the contract's expenditure authority by \$3 million (totaling \$33 million) to support planned campaigns and cover unexpected activities.

The chair requested a future update on the impact and effectiveness of Monk's work in reaching target Hispanic audiences. Staff agreed and noted some of that would be covered in the upcoming business plan.

With no public comment, Commissioner Mills moved to approve action item 8(i) and was seconded by Commissioner Alvidrez. The motion passed unanimously.

- j. Fiscal Year 2025-26 Business Plan  
The Lottery's proposed 2025-26 business plan highlights strong current sales—on track for over \$9 billion—with contributions to education exceeding \$2 billion for the fourth year. Despite broader economic caution and declines in some sectors, Lottery playership remains high, with 7 in 10 California adults playing in the past year. The plan focuses on six key objectives, starting with growing draw game sales, which offer higher profits. This year's jackpot sales declined due to fewer big jackpots, but new enhancements to Mega Millions—including a prize multiplier—are expected to boost non-jackpot winnings and stabilize sales. For 2025-26, the Lottery will explore enhancements to other draw games and develop a multiyear roadmap, while continuing to promote jackpots and leverage marketing tactics.

The Lottery aims to grow sales responsibly by attracting light and infrequent players rather than pushing heavy spenders. Research showed barriers to Scratchers play include perceptions of gambling, distrust, and buying challenges. Since 2021, marketing repositioned Scratchers as fun, increasing playership to record highs despite inflation pressures. New products and digital 2nd Chance promotions have boosted engagement. For 2025-26, 53 Scratchers games will launch, with a majority at lower price points, plus a pilot for cashless self-service machines to ease

purchases. Trust-building campaigns will continue, emphasizing the Lottery's community impact. Expansion into new retail formats and digital in-store displays will grow visibility. Customer experience improvements for players, retailers, and employees are planned, including inventory management upgrades and enhanced digital tools.

The Lottery's 40th Anniversary celebration continues as its sixth and final objective for FY 25-26. Anniversary-themed scratcher games launched this year have generated strong sales and profits, including a popular \$40 game and a successful \$2 game. Marketing has also revived fan favorites, introduced a special anniversary logo, a dedicated webpage, and a social media series sharing Lottery history and education contributions. Next year, more anniversary games will launch, including an interactive California Dreamin' ticket featuring educational facts about Lottery impacts on schools. Internal engagement and employee celebrations will continue as well.

*(There was a **10minute break** given after action item 8(j) presentation and before taking questions for this action item)*

Following the break,, commissioners discussed the business plan's alignment with budget assumptions, employee development initiatives, retail expansion strategies, and the importance of tying plan goals to measurable outcomes and organizational communication. The plan was praised for its thorough research and focus on community impact, with a motion to approve it pending further follow-up on key performance indicators and employee experience enhancements.

With no public comment, Commissioner Mills moved to approve action item 8(i) and was seconded by Commissioner Alvidrez. The motion passed unanimously.

k. Fiscal Year 2025-26 Budget Plan

The Lottery's budget is developed through a zero-based budgeting process that rigorously evaluates every expense to ensure alignment with strategic goals and to maximize annual funding for education. The budget is primarily funded by ticket sales and includes projections for revenues, prize expenses, administrative costs, and contributions to education.

For 2025-26, total ticket sales are projected at \$9.1 billion, a modest increase of 0.8% from the current year's estimate. While Scratchers sales are forecasted to decline slightly, recent positive trends suggest this may be revised upward. Sales projections for Powerball and Mega Millions are

increasing significantly, reflecting fewer high jackpots this year, while other games show modest adjustments based on recent performance data.

Prize expenses are estimated at \$6.03 billion, representing about 66% of sales, which aligns with the Lottery's target payout range. Administrative expenses, capped at 13% of sales, include retailer compensation, gaming costs, and operating costs. Operating costs are expected to rise mainly due to negotiated salary increases and the addition of new staff to meet operational needs.

Because this budget is prepared earlier than usual, it relies on preliminary sales and expenditure data. A revised budget will be presented later in the year to incorporate more complete information, ensuring continued alignment with the Lottery's strategic and financial goals.

The Lottery is adding 15 new permanent positions across various divisions to support operational needs. Five new roles in Sales and Marketing will maintain the staff-to-retailer ratio amid network growth. Four positions in Operations will address custodial needs. Three roles in the Executive Division focus on information security and sensitive investigations. Additionally, new positions in Finance, IT Services, and Security and Law Enforcement will support prize payment continuity, digital services management, and compliance functions. Nine temporary positions from the current year will also be converted to permanent, reflecting ongoing needs without increasing the personal services budget. Overall, personal services costs remain efficient, accounting for just 1.6% of projected revenues.

The marketing budget will see a \$7.8 million reduction to preserve an administrative spending reserve. Approximately \$12 million in requested marketing funds were not initially funded, with a portion earmarked within the reserve to be potentially released if sales perform well. Contractual services costs are projected to increase by \$6.8 million, supporting projects like the Northern Distribution Center completion, HR automation, and pavilion audio/visual upgrades. The education campaign is budgeted at \$4.4 million, half of the \$8 million estimated need, with the remainder also reserved pending sales performance.

Other operating costs include a \$1.5 million decrease in depreciation due to aging equipment dropping off schedules and replacement of newer assets. Operating expenses like telecommunications, vehicle costs, and utilities are projected to rise by \$2.2 million, largely from higher state assessments. Some planned vehicle replacements are deferred to maintain reserves. The budget maintains a \$5 million reserve for insurable risk and a \$95 million administrative spending reserve to safeguard against uncertainties and unplanned needs, ensuring operational stability.

Total administrative expenses, including reserves, are projected at \$1.183 billion, precisely 13% of projected sales. Any unspent funds below this cap are transferred to education, supporting the Lottery's mission efficiently.

Commissioner Mills expressed concerns about the challenges of marketing budget cuts and the correlation between sales performance and marketing funding. Deputy Director Buchen explained that marketing planning requires advance knowledge of funds, and reductions complicate timing and adaptability. Vehicle replacements were partly deferred after analysis deemed it a prudent decision, balancing maintenance costs and safety. The PR campaign related to the Lottery's educational benefit is partially funded, with potential for additional funds to be transferred from reserves if sales justify it.

The administrative spending reserve requires director approval for transfers and is reported quarterly to the commission. While the commission approves the reserve use in the budget, actual spending depends on sales and operational needs, with any unspent funds ultimately benefiting education.

Most administrative costs are tied directly to retailer compensation, gaming expenses, and marketing—key drivers of sales and education funding. Operating overhead is a small portion of total expenses, highlighting efficient cost management. The projected contribution to education for 2025-26 is about \$2.075 billion, marking a milestone of over \$2 billion for the second consecutive year. However, the budget falls short of meeting the Lottery Act's five-year average contribution requirement by about \$55 million, due to factors like plateauing sales growth and atypical jackpot occurrences in recent years.

Deputy Director Buchen emphasized the risks of inflating sales goals or drastically cutting costs to meet regulatory averages, noting the impact on employee incentives and education funding reliability. The Lottery is pursuing initiatives to grow future sales and contributions, but long-term plateauing may cause similar shortfalls to recur. Transparency about this issue has been ongoing, with this information being shared internally, as well as with the commission.

Finally, Commissioner Mills praised the team's detailed work on the budget and suggested developing a guiding principles document to clarify budget values, assumptions, and regulatory requirements—helping commissioners better understand and prepare for the budgeting process. She also voiced a philosophical struggle with approving a non-compliant budget, urging advocacy to amend regulations that are impractical to meet.

Commissioner Alvidrez expressed deep appreciation for the Lottery team's hard work under challenging conditions and acknowledged the effectiveness of AB 142 in increasing sales and education funding since its enactment. However, she recognized the current difficulty in meeting the law's five-year average funding requirement, describing it as a structural issue with the statute that will require ongoing efforts and conversations to address.

Chair Garrison-Engbrecht echoed gratitude for the team's dedication, especially given tight timelines and scheduling challenges due to a vacancy on the commission. She noted the importance of revisiting the budget later as more data becomes available.

Deputy Director Buchen had previously explained why the budget does not meet the five-year average contribution to education, citing extraordinary factors like pandemic-related sales surges and unprecedented jackpot wins that inflated recent averages. The commission acknowledged that inflating projections just to meet the requirement would be imprudent and appreciated the Lottery's transparency on this issue.

Director Chima also praised her team's extraordinary effort in preparing the budget under a compressed timeline, highlighting the teamwork and coordination involved.

With no public comment, Commissioner Alvidrez moved to approve action item 8(k) and was seconded by Chairman Garrison-Engbrecht, while Commissioner Mills abstained due to philosophical concerns about approving a non-compliant budget.

**9. Commissioner General Discussion**

The were no items brought up for discussion.

**10. Scheduling Next Meetings**

The next Commission Meeting dates are tentatively scheduled for September 25<sup>th</sup> and November 20<sup>th</sup>, all to be held in Sacramento.

**11. Public Discussion**

There were no items brought up for public discussion.

**12. Adjournment**

Chairman Garrison-Engbrecht adjourned the meeting at 1:17 p.m.