

Massachusetts State Lottery Commission

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STEVEN GROSSMAN

Treasurer and Receiver General

PAUL R. STERNBURG

Executive Director

DATE: December 20, 2011

TIME: 10:00 a.m.

PLACE: Office of the Treasurer and Receiver General
12th Floor
One Ashburton Place
Boston, MA

MEMBERS PRESENT: Steven Grossman, Treasurer and Receiver General, Chair
Martin Benison, Commissioner
Beth Boland, Commissioner
Tim McMahon, Commissioner
Gregory Massing, General Counsel, EOPS, designee of
Commissioner Mary Beth Heffernan

ALSO PRESENT: Paul Sternburg, Executive Director, Lottery
William Egan, Assistant Executive Director/General Counsel
Jean Caron, Executive Assistant, Lottery
Beth Bresnahan, Assistant Executive Director of Marketing and
Communications, Lottery
Cathy Judd-Stein, Assistant Executive Director of Policy
and Special Counsel, Lottery
David Sweeney, Chief Financial Officer, Lottery
Shanel Lindsay, Assistant Executive Director of Human
Resources and Employment Counsel, Lottery
Paul Mandeville, Assistant Executive Director, MIS
Matt DiFrancesco, Assistant Director of Operations
Jeff Rogato, Lottery Telecommunications
James MacDonald, First Deputy Treasurer
Jamey Tesler, General Counsel, Treasury
Al Gordon, Director of Policy

Robert Frasca



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I. Opening of the Meeting

Treasurer Grossman opened the meeting at 10:04 a.m. Treasurer Grossman stated that in reviewing the manner in which public meetings are conducted that it would be better to open all meetings with the acceptance of the previous meetings minutes. Commissioner Benison made a motion to open the meeting with the acceptance of minutes of the November 29, 2011 meeting and Commissioner Boland seconded the motion 5 – 0.

1.0 Acceptance of the Minutes of the Meeting of November 29, 2011

Treasurer Grossman asked the Commission to accept the minutes of November 29, 2011. Commissioner Benison made a motion to approve the minutes of the meeting of November 29, 2011. The motion was seconded by Commissioner Boland. The minutes were unanimously approved 5-0.

2.0 EXECUTIVE DIRECTOR REPORT

Director Sternburg reviewed the Sales Update for the month of November, 2011. Overall sales were up \$20 million higher than November 2010. The Lottery's overall net profit for November was up \$8 million due to robust holiday sales. The prize payout in November, 2011 consistently strong sales, and lower than average payouts increased the year-to-date overall net profit to \$31 million. November's sales increase was largely due to Instant Tickets, which were up \$13 million, while Megabucks Doubler sales were up \$900,000. Powerball increased \$500,000, and Mass Cash increased \$2.5 million. Additionally, the new \$10 Million Raffle game added \$2.9 million.

Director Sternburg continued to evaluate each game and their performance. Cash WinFall sales were down \$500,000 due to lower jackpots this year. The Numbers game was down \$1.6 million. Director Sternburg stated that as of the first two weeks of December sales were up \$87 million for Fiscal Year 2012.

Treasurer Grossman told the Commissioners that the "10 Day Countdown" is the most important with regards to sales for the Raffle game. Director Sternburg told him that with more advertising the Lottery could have reached more players. Commissioner Boland asked if the Lottery would be doing an analysis for our next raffle. She thought it would benefit the Lottery to know what we could do differently, such as extending the play period. Director Sternburg told Commissioner Boland that there would be a full summary of the Raffle game.

Director Sternburg stated that Cash Winfall sales are flat but he is pleased with the progress being made for the New England Lucky for Life game that will be taking its place. There are weekly meetings with all New England Directors working on the rules of the game and once they are finalized a copy will be sent to each of the Commissioners.

Commissioner Boland is interested in hearing more about procurement procedures and we will send her a copy.

Prior to discussing the first vote, there was a computer issue and Treasurer Grossman took that time to speak about debit cards being utilized for Lottery purchases. Thirty-three (33) out of forty-two (42) Lotteries currently accept debit cards. Treasurer Grossman feels that it is the same as a cash transaction and that people should be able to spend their money any way they want to. Counselor Egan is looking into the issue of the debit cards as the only statute we have is outdated and speaks only of credit cards or loans for gambling which are voidable. Decisions regarding

the use of debit cards are policy related decisions and Director Sternburg will make those decisions. There does not need to be a vote approved by the Commissioners. Commissioner Boland cautioned Director Sternburg about paying attention to the regulations of debit cards. Director Sternburg advised the Commissioners that the debit card transaction would be between the agent and the bank. Commissioner Benison asked about fees and if the Lottery would refund the agents and Director Sternburg told him that the Lottery would not be issuing any refunds if an agent decided to accept debit cards. Commissioner Benison suggested that the Director look into the fees associated with these transactions. There will be some agents that need to be educated but as Mr. Mandeville pointed out most of the agents already accept debit cards because this is the way technology is moving.

Treasurer Grossman's intention is to begin accepting debit cards the first of the year. As far as marketing other than the website, we will have POS for the agents to post. This is not a mandatory request of the agents but a convenience they can offer to their customers.

3.0 Votes presented to the Commission

3.1 For the reasons set forth in the attached memorandum dated December 14, 2011, the Executive Director is authorized to enter into contracts for three (3) years for the Delivery/Moving/Storage of MSLC equipment with the following firms:

Sterling Corporation
27 Sterling Road
Billerica, MA

Tobin & Sons Moving and Storage (back-up)
3A Summit Industrial Park
Peabody, MA

This award is made pursuant to a competitive bid process (RFR LOT #1201), in which these firms submitted the proposal that received the highest scores.

The maximum obligation assumed under these contracts shall not exceed five-hundred thousand dollars (\$500,000.00).

Matt DiFrancesco, Assistant Director of Operations, told the Commissioners he is confident in both of the firms and the pricing remains the same as five (5) years ago.

A motion to authorize the Executive Director to enter into contracts for three (3) years for the Delivery/Moving/Storage of MSLC equipment with Sterling Corporation and Tobin & Sons Moving and Storage was made by Gregory Massing and seconded by Commissioner McMahan. Motion approved 5 – 0.

3.2 For the reasons set forth in the attached supporting documents dated December 20, 2011, the Executive Director is hereby authorized to enter into negotiations to exercise the next two one-year contract extensions with the following firm for agent communications network services:

Verizon
Boston, MA

This authorization is made as a result of competitive bid RFR LOT #505 in which Verizon was awarded the original contract in December 2005.

The maximum obligation assumed under each one-year contract extension shall not exceed eleven million dollars (\$11,000,000.00).

Director Sternburg apologized to the Commissioners for not bringing this vote to the Commission sooner. It is a complicated contract but must go through. There are four (4) one (1) year extensions left and we can't go more than five (5) years with four (4) one (1) year extensions.

One thousand seven hundred (1,700) vending machines need to be replaced. A consultant will look at the next generation of equipment and report back with a full range of options. Commissioner Boland asked what would happen if the Commission didn't approve the vote and Director Sternburg said that the Lottery would have to go out for a re-bid. Greg Massing asked if the pricing was the same and the Director stated it was the same price. Commissioner Boland asked about the effect of the PAT's which the Commission is already anticipating into the system.

Director Sternburg updated the Commissioners on the PAT's informing them that CVS will have 10 stores test the PAT. K-Mart is going on-line with approximately 19 stores. Director Sternburg felt progress was being made and informed the Commissioners that he will need to have them approve expenditures the first of the year.

Paul Mandeville gave a power point presentation of the history of the communication and computer systems, what the plans for the future are and the reasons to extend the contract. A copy of the power point presentation is attached hereto.

A motion to authorize the Executive Director to enter into two one-year contract extensions with Verizon was made by Commissioner Benison and seconded by Commissioner McMahan. Motion approved 5 – 0.

3.3 For the reasons set forth in the attached memorandum dated December 15, 2011, the Executive Director is authorized to enter into a one-year contract for promotional opportunities at Boston Celtics home games with the following firm:

Banner Seventeen, LLC
226 Causeway Street
Boston, MA

The maximum obligation assumed under these contracts shall not exceed one-hundred twenty thousand, seven hundred and thirty one dollars and seventy-six cents (\$120,731.76).

Treasurer Grossman informed the Commission that he speaks with an abundance of caution in that his family's printing company performs work for the Celtics. The opportunities are due to a program called Heroes Among Us. Heroes Among Us was established in 1997 to recognize outstanding individuals and has honored more than 600 people. This program allows the Lottery to be associated with a program that echoes what the Lottery is all about giving back to the community. The Lottery has been the presenting sponsor since 2004. At the conclusion of the season, all the "Heroes" are brought together at the State House and recognized once again.

The Celtics will also feature a "Lucky Row" at each home game. The Celtics choose a random row and everyone in that row that is of-age receives one free Lottery instant ticket that has been purchased by the Celtics. That row is then recognized on the Jumbotron during the game.

A motion to authorize the Executive Director to enter into a one year contract for promotional opportunities at Boston Celtics home games with Banner Seventeen was made by Commissioner Boland and seconded by Commissioner McMahon.
Motion approved 5 – 0.

3.4 By -Laws

Ms. Judd-Stein started by informing the Commissioners that many people assisted with the development of the by-laws and gave a special thanks to Commissioner Boland for her contributions. Treasurer Grossman also thanked Commissioner Boland for her assistance and time. Commissioner Boland said she assisted with the basic framework of what a Commissioner's duty is and receiving the Director's report. The by-laws will allow the Commission more time to work on policy issues by delegating certain authority to the Executive Director. Commissioner Boland stated that sections 5 and 10 are the most important. The Commissioners requested Ms. Judd-Stein to make certain changes to the draft by-laws. Treasurer Grossman asked if the by-laws were ready to go and Ms. Judd-Stein, who had made note of the recommended changes, suggested that she would make the changes based on today's discussion and a vote could take place at the Commission meeting on January 31st.

3.5 For the reasons set forth in the attached memorandum dated December 19, 2011, the Executive Director is authorized to contract for TV media purchasing with the following firm:

Fuseideas
255 Elm Street, Suite 201
Somerville, MA

The company is on sate contract as a result of competitive bid #PRF 33 conducted by the Operational Services Division who established a list of qualified vendors.

The maximum obligation would be seventy-five thousand dollars (\$75,000.00).

The Lottery is seeking visibility of the Raffle game as the last ten days are critical. Radio advertising has increased sales but television advertising would reach a larger audience. The Lottery issued requests for quotes from twenty-one (21) vendors on the state contract and two vendors responded; Fuseideas and Connolly Partners. Fuseideas scored the highest on the Lottery's scoring system.

A motion to authorize the Executive Director to contract for TV media purchasing with Fuseideas was made by Commissioner Boland and seconded by Counselor Massing.
Motion approved 5 – 0.

Treasurer Grossman thanked everyone for attending the Commission meeting. The meeting was adjourned at 11:30 a.m. with a motion made by Commissioner Benison and seconded by Commissioner Boland. Motion approved 5-0.

Treasurer Grossman then recommended to the Commissioners that they would be going into Executive Session with respect to the bargaining agreement between the Lottery and the Service Employees International Union, Local 888. There will be no votes taken in the Executive Session and the Commission will reconvene solely to adjourn the meeting.

The next Commission Meeting will be January 31st, 2012 at 10:00 a.m.

Treasurer Grossman requested a motion to move into executive session for the purpose to allow the Commission to discuss strategy with respect to collective bargaining because an open meeting may have a detrimental effect on the bargaining position of the Commission. The exception is found in Massachusetts General Laws c. 30A, **§21(a)(3)**. The motion was made by Commissioner Benison and seconded by Commissioner Boland at 11:35. A roll call vote was taken Commissioner McMahon: yes; Commissioner Benison: yes; Commissioner Boland: yes; Counselor Massing: yes and Treasurer Grossman: yes.

Treasurer Grossman appointed First Deputy Treasurer MacDonald to chair the executive session pursuant to Mass.Gen.l c. 10, §5.

The Commission reconvened at 12:00 pm. Commissioner Benison made a motion to adjourn and Commissioner Boland seconded.
Motion passed 4-0.

Request

■ We would like to extend the existing contract for two years.

■ A two year commitment:

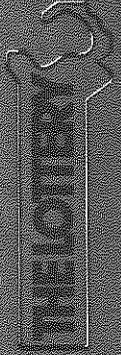
- gives us a better bargaining position for ongoing negotiations regarding our current protocol support over a wireless connection
- secures our current frame relay pricing when the price for this product has, and will continue to, increase.
- allows us to continue to investigate new communication technologies as the new system RFR is being written and evaluated

December 20, 2011

Massachusetts State Lottery

Communications Network

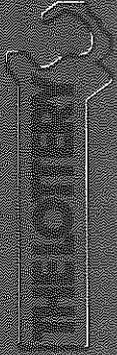
Contract Extension Request



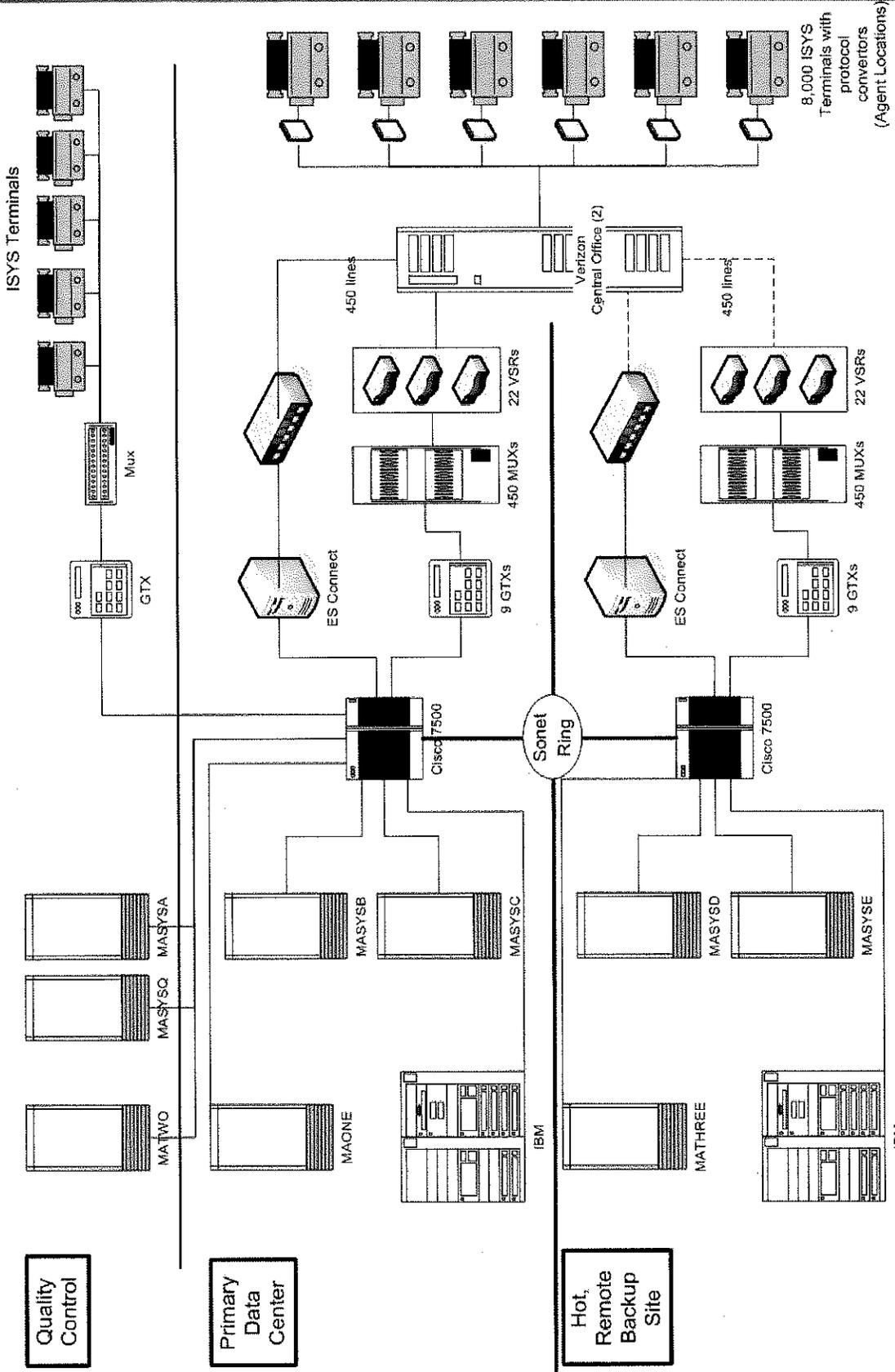
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Components to Lottery On-Line Transaction Processing (OLTP) System

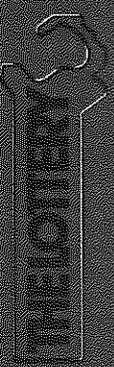
- Host Computer System – a closed system of several mainframe computers working together to process all transactions
- Communication Network – servers, routers, switches, physical circuits to agent locations
- Lottery Terminal – provides agent access to the Lottery's OLTP system using encrypted, proprietary protocol messaging



MSLC Production Systems

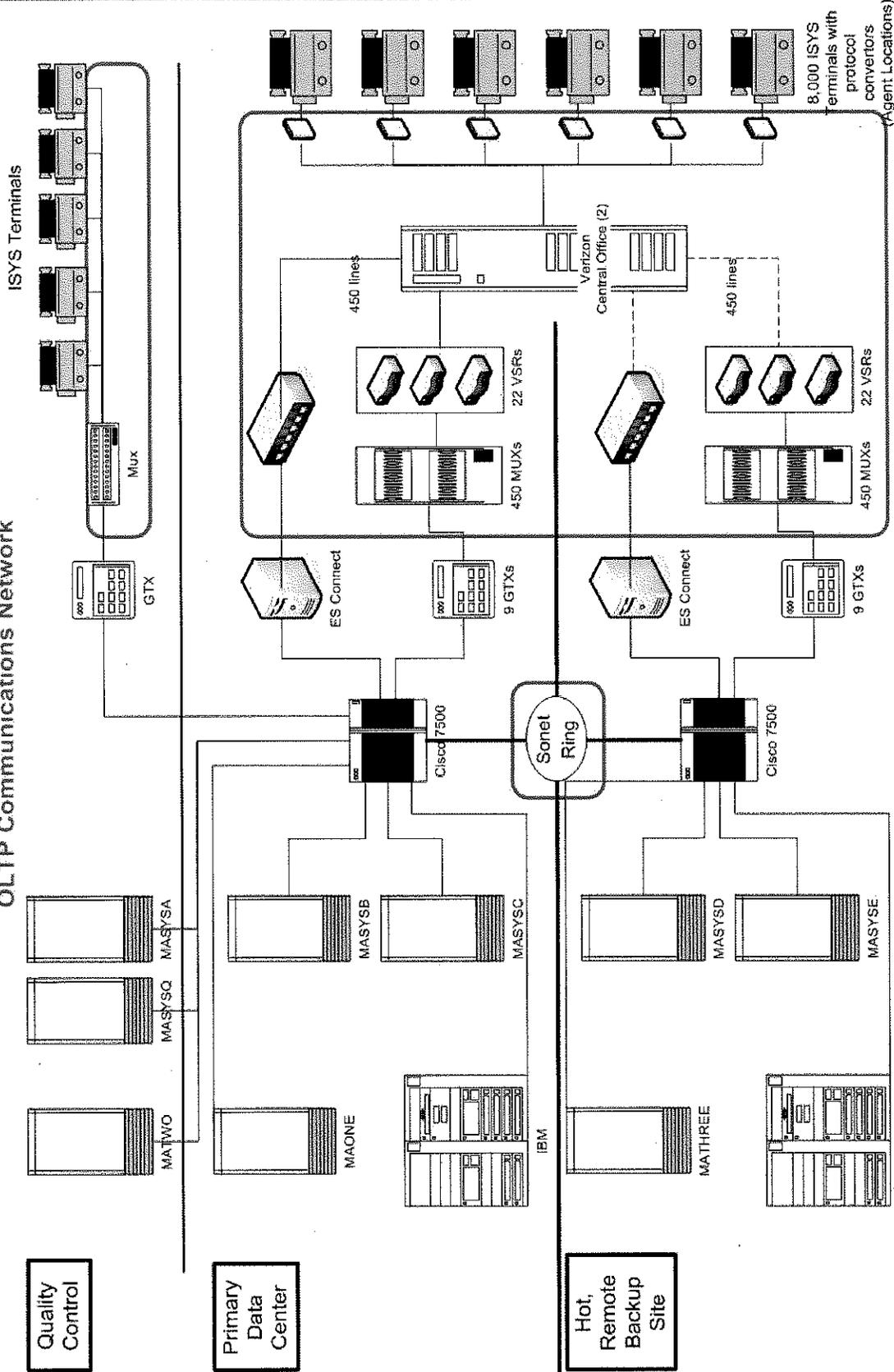


December 20, 2011

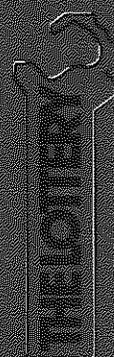


MSLC Production Systems

OLTP Communications Network



December 20, 2011



Some Statistics

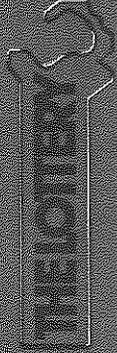
- Approximately 8,000 agent terminals
- Average OLTP transaction rate is approximately 3,500 transactions per minute
- OLTP transaction rate routinely peaks over 15,000 transactions per minute
- Lottery revenue averages over \$10,000 per minute
- 2 completely redundant data centers



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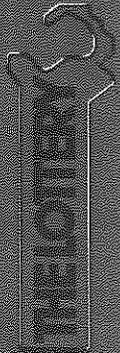
History

- 1981 – Installed first Lottery host computer system, terminals, analog modems over voice grade telephone lines
- 1990 – First agent communication network contract executed with New England Telephone (which became NYNEX, then Bell Atlantic, then Verizon) for DDS service, a term of 15 years
- 1997 – Replaced host computer system and terminals with Digital/GTECH system
- 2005 – RFR #505 won by Verizon for a term of 5 years plus five 1-year extensions
- 2010 – Lottery Commission approved first year extension



Plan

- In 2005, our agent communication network contract ended and DDS service had reached "end-of-life"
- At that time, the host system and terminals were aging but not yet ready to be replaced. Therefore, a new agent communication network would be required to support the existing host/terminal system as well as a new Internet Protocol (IP) based host/terminal system.
- RFR #1204 for "Consultant Services for Development of Request for Responses for a New On-Line Gaming System" was released on November 23, 2011 with a response date of January 12, 2012.
- Following completion of RFR #1204, we anticipate issuing RFR(s) to migrate to a state-of-the-art gaming system of host computers, terminals, etc.
- We expect the RFR, vendor selection, and installation processes to take approximately two years.



Reasons to Extend

Our current frame relay, agent communication network must be maintained for at least two years, with the same: response time; reliability; security; proprietary protocol support; resiliency; monitoring capability; etc.

We have obtained the following monthly frame relay pricing:

- Current pricing on RFR #505 \$ 72.08
- Verizon on state contract ITT09 \$103.20
- ATT on state contract ITT09 \$175.35

As a result of RFR #505, a capital outlay of \$10.3 million was required for network hardware. (One year of financing still remains on this capital expense.)

- An contract extension would allow us to continue using this hardware.
- A new vendor would also require significant start-up costs

Verizon has stated that the Service Level Agreements agreed to in RFR #505 are the most stringent SLAs to which they have ever agreed. (The MSLC has already recouped over \$5 million in SLA fees over the course of the contract.) It is unlikely that any other vendor would agree to such SLAs.

