

Massachusetts State Lottery Commission

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STEVEN GROSSMAN

Treasurer and Receiver General

PAUL STERNBURG

Executive Director

DATE: April 30, 2012

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
Beth Boland, Commissioner
Tim McMahon, Commissioner
Jennifer Hedderman, General Counsel; designee for Martin
Benison, Commissioner
Jane Gabriel, Acting General Counsel; designee for Mary Beth
Heffernan, Commissioner

ALSO PRESENT: Paul Sternburg, Executive Director, Lottery
William Egan, General Counsel, Lottery
Beth Bresnahan, Assistant Executive Director of Marketing &
Communications
Jean Caron, Executive Assistant, Lottery
David Sweeney, Chief Financial Officer, Lottery
Cathy Judd-Stein, Assistant Executive Director of Policy
and Special Counsel, Lottery
James MacDonald, Deputy Treasurer
Steve Quinn, Assistant Director of Sales, Lottery
Al Gordon, Deputy Treasurer of Policy
Jamey Tesler, General Counsel, Treasury
John Della Volpe, Principal Owner of Social Sphere, Inc.

1.0 Opening of the Meeting

Treasurer Grossman opened the meeting at 10:01 a.m.

2.0 Acceptance of the Minutes of the Meeting of April 2, 2012

Treasurer Grossman asked the Commission to accept the minutes of the April 2, 2012 meeting. Commissioner Boland made a motion to accept the minutes from the April 2, 2012

meeting and Counselor Gabriel seconded the motion. The minutes were unanimously approved 5-0 at 10:02 a.m.

3.0 EXECUTIVE DIRECTOR REPORT

Director Sternburg began his report by announcing that the Lottery sales for March 2012 were \$45 million higher than March 2011. These strong sales coupled with a 7% decrease in the monthly prize payout from March 2011 to March 2012, raised the net profit for the year by \$81.7 million. This is a \$40.9 million increase over last month's net profit. Despite favorable payout figures, the Lottery continues to produce projections for budget purposes using the historical average prize payout of 72.3%.

Sales increases in March were attributed to a \$26 million bump in instant ticket sales; a \$16 million increase in Mega Millions due to a world record-setting \$656 million jackpot in the March 30th drawing; a \$2 million increase in Mass Cash sales and an additional \$4 million from the new Lucky for Life game.

Powerball and the Numbers Game both saw decreases in March. Powerball was down \$1 million due to a larger jackpot at this time last year and the \$1 million decrease in the Numbers game is most likely due to Mass Cash's nightly draw expansion.

The Lottery's 40th Anniversary Event. Treasurer Grossman noted that the event held at the State House on April 18, 2012, was very nice and all that attended enjoyed themselves. Treasurer Grossman did an outstanding job of introducing former Treasurers, Executive Directors and invited dignitaries, as well as forty original Sales Agents. Guest speakers included former Treasurer Crane and the owners of Gary's Liquors in West Roxbury. The event closed with Executive Director Sternburg executing a live Midday NUMBERS drawing.

The Lottery has grossed over \$86 billion in sales, awarded \$58.8 billion in prizes and returned nearly \$19 billion in net profit to the cities and towns of Massachusetts since selling the first game ticket in 1972.

Director Sternburg continued his report with The Three Stooges instant game that went on sale on April 3rd with a purchase price of \$2. In 23 days the sales reached \$9.6 million. There was an event to launch the ticket at the Charlie Horse in West Bridgewater which included impersonators of the Three Stooges and a Three Stooges Trivia contest by Morgan White.

"For Life" Ticket Suite sales for the four games that were released on February 21st reached \$148 million. Ticket sales have never been as consistent as these. Director Sternburg explained that the ticket has indexed at 184 with the base figure being 100. Treasurer Grossman added that it was without a budget for advertising. The Treasurer explained that if the Lottery were to gain \$3 million in their advertising, it would create a return of \$7.4 million.

Commissioner Boland asked Director Sternburg why there has been such an increase in instant ticket sales this past year. Director Sternburg attributed the \$193 million increase to better design, more research and making the instant tickets appealing to the customer. More eye catching when the customer enters an agent location.

Treasurer Grossman said that it is very likely that the profit figure will again be increased once the April numbers are calculated. Sales for last week were up \$8.2 million which is an increase of \$252 million for the past 10 months. With 2 months left in this fiscal year, the projected profit figure is at \$936 million. If the current sales pattern and payout percentage hold, the Lottery could break the record from FY '06 of \$951 million.

4.0 LOTTERY REFORM SCORECARD

Procurement: David Sweeney reported that to reflect OSD policy changes and maximize efficiencies in the Lottery's procurement and purchasing practices, the Finance Department has increased the threshold for large procurements from \$50,000 to \$150,000. Even though a vote may not be necessary, items of policy significance will be brought before the Commission at the monthly meetings to keep everyone informed of any procurements. A new procurement director, Jackie Kassis, joins the Lottery today.

Governance: Cathy Judd Stein reported that in keeping with the Lottery's commitment to open and transparent governance, the Lottery's website now has a section called "Commission Meetings and Materials" which is ready to go live, <http://www.masslottery.com/about2012/>. This will ensure compliance with the By-laws' requirement that we post on the Lottery's website the resolution authorizing the Executive Director to enter contracts under a set maximum liability (\$150,000).

Director Sternburg introduced John Della Volpe, principal owner of Social Sphere, Inc. which conducted a survey to evaluate the success and awareness of the \$10 Million Raffle. This interview was done with 250 people at agent locations throughout the state between the dates of February 23 – 26, 2012. Interviews were held at various times of the day, at agent locations with high sales as well as agents with low sales. Based on sales profiles, agents were chosen so that a variety of sales regions and store types could be included in the survey. Interviews were conducted with players who had just purchased a Lottery ticket. Upon leaving the store they were asked if they would complete a 5 minute survey. Players were asked about their current Lottery playing and spending patterns, awareness and purchase patterns of the \$10 Million Raffle, and attributes and improvements for future style Lottery games.

Key Findings:

1. The typical player of the \$10 Million Raffle was a male, weekly player aged 35-54 that played scratch tickets and spent about \$75 a week on Lottery games.
2. Half of the players interviewed (51%) were aware of the game without being aided, with an additional 22% were aware after being aided. In-store advertising was the way most of the players became aware of the game.
3. Of the 28% of players interviewed that they were unaware of the game, 49% said they would have played if they had known about the game. Those players prefer in-store ads as the method of informing them.
4. Of players that were aware of the raffle and did not play, 39% said it was the \$20 cost as the main reason they did not play. When asked if they would consider playing if it were a \$10 price, 83% said they would be likely to play at \$10 and 54% saying they would definitely play at \$10.
5. Of the agents that were interviewed they were satisfied with their Sales Representatives and found them helpful. For the agents whose sales fell below expectations for the raffle game (4 out of 10), poor advertising was usually the main reason. When agents were asked about ways to improve future raffles they cited lowering the price and increasing the number or prizes.

Profile:

1. Age: 18-24 5%; 25-34 14%; 35-44 13%; 45-54 27%; 55-64 23% and 65+ 18%.
2. Gender: Male 65%; Female 35%
3. Frequency of play: 91% - weekly; 9% - monthly, yearly
4. Weekly Spending: \$10 or less 19%; \$11-\$20 17%; \$21-\$50 29%; Over \$50 34%.
5. Which Lottery games do you play regularly?

Scratch tickets	80%
Powerball	52%
Mega Millions	50%
Megabucks	41%
KENO	41%
Numbers Game	40%

\$10 Million Raffle Awareness:

1. Other than new instant games, are you aware of any new or special Lottery games that have come out in the past 6 months or so?

Mentioned Raffle by name	– 51%
Did not mention Raffle by name	– 49%
2. Did you hear about or were you aware of the \$10 Million Raffle Game, which had its drawing on New Years Day?

Yes	~ 22%
No	~ 27%
3. Total awareness:

76% of weekly players were totally aware
41% of non-weekly players were totally aware

Total awareness by game type:

74% are scratch ticket players
79% are megabucks players
81% are MegaMillions players
80% are Powerball winners
82% are Numbers game players
82% are KENO players
4. Where did you hear about or see information regarding the \$10 Million Raffle?

In store ad	60%	Mass Lottery Website	7%
Word of mouth	14%	TV	4%
Radio Ad	12%	Non-Lottery website	2%
Globe or Herald	8%	Other	0.5%
5. Asked the players that were unaware of the \$10 Million Raffle ~ If you had known about the game, how likely would you be to play the game?

Somewhat likely	18%
Very likely	31%
Not very likely	15%
Not at all likely	36%
6. Asked the players that were unaware how they would like to get information about new games like the \$10 Million Raffle?

In-store	49%
TV	17%
Online	8%
Newspaper	7%

Radio	4%
Mail	4%
E-mail	3%

Play Patterns:

7. Did you purchase any of the \$10 Million Raffle Tickets?

Purchased	49%
Aware ~ did not Purchase	24%
Unaware	28%
8. Of the Players that were aware of the \$10 million raffle, what were the main reasons for not playing

Too Expensive	39%
Not interested	20%
Bad Odds	6%
Too Late / Forgot	6%
No Response	24%
9. If the Lottery were to hold a similar raffle but priced it at \$10 instead of \$20, how likely would you be to play?

Somewhat Likely	30%
Very Likely	54%
Not Very Likely	9%
Not At All Likely	7%
10. Compared to other Lottery games that you play regularly, how would you rate the \$10 Million Dollar Raffle?

A Good Value	22% - worse value
	38% - about the same
	40% - better value
Fun	18% - less fun
	49% - about the same
	33% - more fun
11. If the Lottery were to hold a similar \$20 raffle in the future, how likely would you be to play?

Somewhat Likely	19%
Very Likely	64%
Not Very Likely	4%
Not At All Likely	13%
12. If the Lottery were to hold a similar raffle in the future, what changes would you make?

More Prizes	34%
Cheaper tickets	7%
More Frequently	5%
Easier Access to results	3%
No Changes	41%

AGENT RESPONSES

- \$10 Price Point
- More smaller prizes
- Poor Advertising
- Need better and more advertising

Treasurer Grossman stated that advertising would have made a huge difference. The goal of selling one million tickets (1,000,000) was not met as only five hundred and fourteen thousand tickets (514,000) were sold. There was a big spike in sales during the last ten days of Raffle sales with advertising on TV.

Treasurer Grossman would be interested in seeing comparative data from other states that have sold the Raffle game and what was spent on advertising.

Advertising for non-Instant games is even more important. An advertising RFR will be going out mid-May and based on appropriations there should be a lot of bids.

5.0 Notes presented to the Commission (10:53)

5.1 That the Commission hereby ratifies and adopts the Decision of Jamey L. Tesler, Esq. (hearing officer sitting by designation) in the matter of the appeal of:

Edward Polselli

Counselor Tesler explained that Mr. Polselli placed two bets intended for the mid-day drawing but they were actually for the evening draw. Mr. Polselli was not aware of the mistake until after the drawing had taken place. He sent in a claim form seeking to be reimbursed for the winnings of the mid-day drawing. He admitted to Lottery personnel that he never checked his ticket before leaving the store; which is printed on the back of the ticket. The Lottery denied his claim and he requested a hearing in which he was again denied. The decision of Counselor Tesler, Esq. was that Mr. Polselli appeal of the denial for a claim prize is denied for failure to comply with Lottery rules and regulations.

Treasurer Grossman asked for a motion from the Commission to ratify and adopt the decision of Jamey L. Tesler, Esq. in the matter of the appeal of Edward Polselli. Motion was made by Commissioner McMahon and seconded by Commissioner Boland. Motion approved 5-0.

5.2 For the reasons set forth in the vote of the Commission at its meeting on October 5, 2011, the Executive Director is authorized to pay the attached legal costs for the representation of former Treasurer Cahill and former Executive Director Cavanagh in the Bingo Innovative Software LLC v. Timothy P. Cahill et. al. civil action in Suffolk Superior Court to:

Demeo & Associates, LLC
One Lewis Wharf
Boston, MA

The attached legal costs total thirty-seven thousand, three hundred and thirty-seven dollars and forty-five cents (\$37,337.45). Counselor Egan stated that this figure represents legal costs for three months of services by Lee Blaise, Counselor. Counselor Egan's opinion is that things were looking positive. There have been two filings for dismissal; both were denied. His feeling is that it won't make it to trial. Attorney DeMeo is confident as well. There is half a day of depositions left estimated at thirty (30) hours totaling an additional \$10,500.00. Previous costs of approximately \$42,000.00 added to the present bill of \$37,000.00 totals \$79,000.00. There is a cap of \$1 million for the judgment. Treasurer Grossman asked Counselor Egan if he felt as though he had been kept informed and Counselor Egan said yes for the most part. Treasurer Grossman asked if there were any other sources for funds. Counselor Jennifer Hedderman, designee for Martin Benison, Comptrollers office and Lottery Commissioner, stated that there is settlement and

Judgment's fund for this type of cost. She felt that this case seemed pricier and that a breakdown of hourly charges should be submitted to make sure it is correct. Treasurer Grossman asked about the process to be followed making sure the taxpayer is being protected. Counselor Egan said he would contact the law firm of DeMeo and Associates requesting they itemize certain entries on its bill. Bills thus far have been paid by the Lottery Administration, however, any bills going forward through the Comptroller's office need to be broken down as Counselor Hedderman feels \$350.00 is high and they will need to justify this charge. Counselor Egan will work with the DeMeo & Associate Counselor to get the breakdown.

Treasurer Grossman asked for a motion to table this vote until next meeting. Motion was made by Commissioner Boland and seconded by Counselor Hedderman. Motion approved 5-0.

5.3 For the reasons set forth in the attached memorandum dated April 23, 2012, the Executive Director is authorized to enter into a three-year contract with the following printing company:

RMF Printing Technologies, Inc.
50 Pearl Street
Lancaster, NY 14086

The award was made pursuant to a competitive bid process (RFR LOT #1206). There were seven responses received and this vendor received the highest score.

The maximum obligation assumed hereunder shall be two million, one hundred twenty-two thousand, and eight-hundred and fourteen dollars (\$2,122,848.00).

This is the current vendor hired to produce the paper to print the tickets. Director Sternburg said that hopefully within the next year and a half we will be operating on a new system that will use thermal paper. We therefore wouldn't use the entire three year contract or total dollar amount.

Treasurer Grossman asked for a motion to authorize the Executive Director to enter into a three-year contract with RMF Printing Technologies, Inc. Motion was made by Commissioner Boland and seconded by Counselor Hedderman. Motion approved 5-0.

5.4 For the reasons set forth in the attached memorandum dated April 26, 2012, the Executive Director is authorized to amend to increase the maximum obligation of the current contract for statewide delivery services with the following firm:

United Parcel Service
15 Arlington Street
Watertown, MA 02472

This original award was made pursuant to competitive bid LOT #704. An increase of three hundred forty-five thousand dollars (\$345,000.00) is requested.

The total maximum obligation assumed under this contract would be amended to state that the maximum obligation shall not exceed two million, seven hundred thousand (\$2,700,000.00).

This increase is necessary for delivery services of instant tickets. The Lottery is shipping more tickets to the retailers and as such has incurred additional shipping fees. Treasurer Grossman asked why there was a 15% increase and Director Sternburg explained that the boxes are heavier with the increase of sales. Treasurer Grossman asked if the volume is up by 8% why are the shipping costs up by 15%. Director Sternburg explained that the Lottery sold 200 million more this year than last. He also explained that the \$1 and \$2 dollar games have 300 tickets in the books which contribute to more weight in the boxes. That along with the increased cost of fuel explains the increased costs. Treasurer Grossman requested an analysis of FY11 vs. FY12 for the next meeting.

Treasurer Grossman asked for a motion to authorize the Executive Director to amend to increase the maximum obligation of the current contract for statewide delivery services with UPS. Motion was made by Commissioner Boland and seconded by Counselor Hedderman. Motion approved 5-0.

5.5 For the reasons set forth in the attached memorandum dated April 26, 2012, the Executive Director is hereby authorized to amend the existing contract for the purchase of eight (8) additional Ford Escape vehicles from the approved vendor:

MHQ Municipal Vehicles
401 Elm Street
Marlboro, MA 01752

This original award was made pursuant to competitive bid process (RFR LOT #1110), in which this company submitted a proposal that received one of the highest scores.

The maximum obligation under the contract with MHQ Municipal Vehicles shall be increased by one hundred sixty-four thousand, nine hundred twenty dollars (\$164,920), so that the total maximum obligation assumed shall not exceed nine hundred forty-eight thousand two hundred ninety dollars (\$948,290).

The original vote on new vehicles was June, 2011. Director Sternburg said he wanted to keep the Lottery fleet of vehicles up to date. He said the expense of repairs is higher than purchasing new vehicles. Treasurer Grossman asked if the vote is necessary because it is over \$150,000.00 and Counselor Egan explained that any contracts that were previously approved on by the Commissioners required an additional vote for increased purchases. Commissioner Boland asked what a Ford Escape was as she is not familiar with that model. Director Sternburg explained that it was a small SUV. Commissioner Boland asked if the Lottery could go with a smaller car and Director Sternburg said no, that he needed something to carry the excess weight and could withstand the wear and tear.

Treasurer Grossman asked for a motion to authorize the Executive Director to amend the existing contract for the purchase of eight (8) additional Ford Escapes. Motion was made by Acting Counselor Gabriel, designee for Mary Beth Heffernan, Commissioner and seconded by Counselor Hedderman. Motion approved 5-0.

5.6 For the reasons set forth in the attached memorandum dated April 27, 2012, the Executive Director is hereby authorized to enter into a three-year contract extension for Custodial Banking Services with the following company:

Xerox-ACS

This original award was made pursuant to competitive bid process in which Xerox-ACS submitted the lowest cost proposal.

The maximum obligation assumed hereunder for the three-year contract shall not exceed seven hundred and twelve thousand nine hundred ninety-eight dollars (\$712,998.00)

Citibank is the current vendor but their contract was expiring on June 30th. The Lottery will start transition for standard services. Commissioner Boland had not heard of this company before and Counselor Tesler said that they were a nationally recognized vendor that is also partners with Mellon. Treasurer Grossman thanked First Deputy Treasurer, James MacDonald and his team for their work on the procurement. Xerox-ACS came in at the lowest cost and the procurement team was very satisfied with them. The cost will be decreasing from \$21 to \$11 per account. Treasurer Grossman said this is a major savings of \$592,000 to the Commonwealth. This is a savings of 40% over a three year period.

Treasurer Grossman asked for a motion to authorize the Executive Director to enter into a three-year contract extension for Custodial Banking Services with Xerox-ACS for the stated amount. Motion was made by Acting Counselor Gabriel, designee for Mary Beth Heffernan, Commissioner and seconded by Counselor Hedderman. Commissioner Boland abstained from this vote. Motion approved 4-0-1.

Treasurer Grossman asked about educating agents on responsible gambling, that everyone should start thinking about how to inform the agents. He asked Director Sternburg if there is currently anything we do and Director Sternburg said that no, we don't.

Treasurer Grossman asked about the prohibition for the EBT cards and Counselor Egan informed him that a letter was sent to all agents. Treasurer Grossman felt that additional POS at agent locations would strengthen awareness.

The next Commission meeting will be held on Tuesday, May 29th at 10:00 a.m.

Treasurer Grossman thanked everyone for attending today's Commission meeting. The meeting was adjourned at 11:34 a.m. with a motion made by Commissioner Boland and seconded by Acting General Counsel, Jane Gabriel, designee of Mary Beth Heffernan. Motion approved 5-0.