

# Massachusetts State Lottery Commission

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**STEVEN GROSSMAN**  
Treasurer and Receiver General

**PAUL STERNBURG**  
Executive Director

**DATE:** August 24, 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  
Jennifer Hedderman, General Counsel, designee for Martin  
Benison, Commissioner  
Jane Gabriel, Acting General Counsel and designees for  
Commissioner Mary Beth Heffernan  
Beth Boland, Commissioner  
Tim McMahon, Commissioner

**ALSO PRESENT:** Paul Sternburg, Executive Director, Lottery  
William Egan, General Counsel, Lottery  
Beth Bresnahan, Assistant Executive Director of Marketing  
and Communications, Lottery  
Jean Caron, Executive Assistant, Lottery  
Cathy Judd-Stein, Assistant Executive Director of Policy  
and Special Counsel, Lottery  
Al Gordon, Deputy Treasurer of Policy  
James MacDonald, First Deputy Treasurer  
Dave Sweeney, Chief Financial Officer, Lottery  
Owen Doherty, Online Product Marketing Manager  
Mike McCormack

## 1.0 Opening of the Meeting

Treasurer Grossman opened the meeting at 10:03 a.m.

## **2.0 Acceptance of the Minutes of the Meeting of July 24, 2012**

Treasurer Grossman asked the Commission to accept the minutes of the July 24, 2012 meeting. Counselor Jane Gabriel made a motion to accept the minutes of the meeting and Counselor Hedderman seconded the motion. Commissioner McMahan abstained from the vote as he was not in attendance for the July 24, 2012 Commission Meeting. The minutes were approved 4-0-1 at 10:04 a.m.

## **3.0 EXECUTIVE DIRECTOR REPORT**

Overall sales for July 2012 were \$17 million higher than July 2011. There was also a sizable increase in the prize payout for the month. The payout percentage fluctuates based on the rate at which player's cash in prizes. The prize payout for July 2012 was 75.5% as compared to 69.2% in July 2011 and was 3.2% higher than budgeted historical figure of 72.3%. This 2.1% increase resulted in an \$8.8 million decrease in net profit as compared to last year.

Director Sternburg also informed the Commission that the Lottery is accruing money on a monthly basis in preparation for the ending of Hold 'Em Poker and the grand prize tournament to be held in the spring of 2013. He said it took seven (7) years to sell this game out.

Treasurer Grossman pointed out that FY12 net profit to the Commonwealth was \$981 million and going into FY13 the Lottery is estimating returning \$927 million in net profit. The Treasurer estimates that \$6 million in profit will be generated with the additional \$3 million in the advertising budget.

The increase in July was attributed to a \$14 million increase in the Instant Ticket portfolio. There was also a \$3 million increase in KENO following a July 4<sup>th</sup> second chance promotion; a \$1 million increase in Powerball due to a slightly higher jackpot and \$4 million in new sales brought in by Lucky for Life.

Three games experienced sales decreases in July. Mega Millions sales were down \$1 million due to smaller jackpots than last year; sales for the Numbers game declined \$1 million due to cannibalization following Mass Cash's expansion to a nightly schedule; and Cash Winfall sales were down \$4 million since the game ended on January 23<sup>rd</sup>.

The New England Patriots (\$2) instant ticket will be released September 4, 2012. This is the Lottery's third instant ticket with the Patriots. The previous two tickets combined totaled \$169.1 million in sales and generated approximately \$23.3 million in net profit. There is also a second chance drawing with the new \$2 game in which players can enter their non-winning tickets for a chance to win one-of-a-kind VIP game day packages, away game trips and money. One (1) lucky second chance winner will also be selected to participate in a "Halftime Challenge" at Gillette Stadium and win up to \$200,000 in cash.

The 2012 New England Patriots Instant Ticket Facebook Contest was started to celebrate the launch of the new \$2 ticket. The Lottery sponsored a Facebook contest through which 125 fans were selected through a random drawing to win two tickets to attend the Launch Event at Gillette Stadium on August 27<sup>th</sup>. The Lottery's original 95 agents were also invited to attend the event which featured a closed Patriots team practice. At the Launch

Event, the 125 winners will be entered into a drum drawing in which one (1) entry will win an away game trip to watch the Patriots play in Miami on December 2<sup>nd</sup> against the Dolphins. Over 4,500 people entered the contest which resulted in 3,400 new fans to the Lottery's Official Facebook page. The contest helped build exposure to the page and further advance and enhance our social media marketing program.

We are currently on week seven (7) of FY13 and the total sales comparison between the seven fiscal years, FY06 – FY13, demonstrates that this is the best week in eight (8) years.

The Lottery is planning a Labor Day KENO Second Chance Promotion. From August 31st – September 3rd, every KENO ticket sold will have a second chance to win \$2,012. The same type of promotion was held during Memorial Day weekend and the sales were \$284,094 higher than the same days in 2011.

The Lottery will be replacing the Race Game with a new KENO style game. Treasurer Grossman told the Commissioner's that a prototype was shown to the Legislation in his office last year to keep the Legislators completely informed with regards to developments at the Lottery. Director Sternburg said he is looking for an increase in sales with the new KENO style game. It will be going out to bid and the new game will hopefully start to be tested by the end of the second quarter. We should be ready to roll out the new game in January or February of 2013.

Lucky for Life will be holding a promotion in September which will attract new sales. Powerball sales are jackpot driven and Director Sternburg said that it is alarming that it doesn't create excitement until the jackpot reaches \$300 million.

After unsuccessful results from last year's \$10 Million Raffle, Social Sphere was retained to conduct a survey. Owen Doherty presented the idea for a "Super 50/50 Raffle" based on the results of the survey. Sales will begin on October 1<sup>st</sup> and end on December 31<sup>st</sup>, 2012; a total of 92 days. The price point will be \$10 and it will be a true 50/50 raffle with one winner taking half the jackpot. There will be a \$500,000 minimum jackpot guarantee, but as the sales grow so will the jackpot. There will be a daily update on the jackpot size on the masslottery.com website. January 1<sup>st</sup>, 2013 will be the drawing and the winning numbers will be posted on masslottery.com.

Wild Wednesday's, in which five ticket holders win a bonus of \$1,000 each week for 8 weeks, begins on November 7th. Holiday advertising begins December 10<sup>th</sup>, which will include the Raffle. Beginning December 17<sup>th</sup>, ads solely for the Raffle will begin to appear. Sales expectations are \$8 to \$10 million resulting in one winning prize which will be half of what is sold. Treasurer Grossman addressed Beth Bresnahan when stating that last year there were limited monies available for Marketing and now that the budget has increased by \$5 million, how much money will be allotted to the raffle? Ms. Bresnahan stated that the Holiday budget is set at \$1.2 million and about \$350,000 will be dedicated to the Raffle. Ms. Bresnahan also said that dropping the price point results in a lower profit, but the survey suggested that \$20 is too much for a player to spend and there is still potential for \$8 million in profit. She added that there are four (4) valid advertising responses from the RFR and by late September we will have an advertising agency in place. Commissioner Boland wanted to commend Paul and his staff on the fact that after the failed 1<sup>st</sup> Raffle they engaged in a survey to find out how to fix it. Director

Sternburg commented on the fact that a 50/50 raffle is something people can relate to and he is comfortable that the 50/50 raffle will bring in new players.

Director Sternburg said that through last Monday, August 20<sup>th</sup>, the Lottery was exceeding projections. We are up \$28 million for the year; \$18 million in Instant Ticket Sales.

#### **4.0 LOTTERY REFORM SCORECARD**

Cathy Judd-Stein reported that the Lottery is developing a new procurement instrument to ensure proper management of potential conflicts of interest by vendors awarded large procurements. A certification will be executed by vendors in connection with large procurements to reflect existing RFR requirements. Also, we are developing a notice to remind PMT members of disclosure responsibilities under M.G.L. chapter 268(A) upon circulation of bids. The notice explains that if they think there is a conflict, they should contact General Counsel Bill Egan.

#### **5.0 Votes presented to the Commission (10:43)**

- 5.1 For the reasons set forth in the attached memorandum dated August 22, 2012, the Executive Director is authorized to enter into a one year extension with the following company for support, maintenance and additional software licenses:

**Order Pad Software, Inc.**  
174 Hudson Street  
New York, NY 10013

The costs for the one year extension are seventy-four thousand, four hundred and sixty dollars (\$74,460.00).

Director Sternburg explained that this is a Sales Representative instrument which assists the representative with suggested ordering. Suggested ordering is a formula for ordering tickets for an agent based on previous sales. The Lottery has been using the Order Pad for approximately four (4) years and Cole is the only manufacturer of this instrument. This is the last year on the maintenance contract and Director Sternburg is looking at iPads as a possible future sales tool. The iPad is half the cost and has more updated technology. A future RFR will explore all possibilities.

Treasurer Grossman asked for a motion to enter into a one year extension with Order Pad Software. Motion was made by Commissioner Boland and seconded by Commissioner McMahan. Motion approved 5-0 at 10:47 a.m.

- 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 legal costs for the representation of former Treasurer Cahill and former Executive Director Cavanagh in the Bingo Innovative Software LLC v. Timothy Cahill et. al. civil action in Suffolk Superior Court to :

Demeo & Associates, LLC  
One Lewis Wharf  
Boston, MA

The legal costs total thirty thousand, five hundred and fifty-five dollars and eighty-three cents (\$30,555.83). The Lottery is hereby instructed to seek reimbursement as deemed appropriate from the designated fund for legal costs managed by the Comptroller's office.

Counselor Egan stated that the next two (2) months should be minimal hours and that the costs are coming down on a monthly basis. In May the Commissioners approved \$37,337.45 and that is being paid this week.

Previously, \$14,202.19 was paid from Lottery funds and the Lottery was seeking reimbursement, but Counselor Egan was informed that the Comptroller's office only direct pays legal costs, but does not reimburse agencies for paid legal costs. Treasurer Grossman said that Counselor Egan has done everything to assure the Comptroller that the fees are accurate. Settlements and judgments as well as all other fees totaling around \$80,000.00 have all been paid. Commissioner Boland said that she looked over the fees and that they are very reasonable rates.

At this time, Counselor Hedderman abstained from voting due to her position in the Comptroller's office. She also offered suggested wording to the effect of: The Lottery is hereby instructed to seek direct payment as deemed appropriate from the designated fund for legal costs managed by the Comptroller's office. Counselor Egan thanked Counselor Hedderman for her assistance and told her that her suggestions are appreciated.

Treasurer Grossman asked for a motion to authorize the Executive Director to seek direct payment as deemed appropriate from the designated fund for legal costs managed by the Comptroller's office to pay the legal costs for the representation of former Treasurer Cahill and former Executive Director Cavanagh in the Bingo Innovative Software LLC v. Timothy Cahill et. al. civil action in Suffolk Superior Court to Demeo & Associates, LLC. Motion was made by Counselor Gabriel and seconded by Commissioner McMahon. Counselor Hedderman abstained from this vote. Motion approved 4-0-1 at 10:53 a.m.

The next Commission meeting will be September 25<sup>th</sup>, 2012 at 10:00 a.m.

Treasurer Grossman then informed the Commissioners that they would be going into Executive Session for the purpose of an update with respect to Double Platinum Payday. There will be no votes taken in the Executive Session and the Commission will reconvene solely to adjourn the meeting.

Treasurer Grossman requested a motion to move into Executive Session to allow the Commission to discuss strategy with respect to potential litigation and continuing in an open meeting would have a detrimental effect on the litigating position of the Commission. He therefore recommended that the meeting move into Executive Session. The exception is found in Massachusetts General Laws c. 30A, §21(a)(3). Treasurer Grossman informed the meeting that no votes would be taken during Executive Session and the Commission would reconvene for the sole purpose of adjourning. The motion was made by Commissioner Boland and seconded by Counselor Hedderman at 10:54 a.m. A roll call vote was taken: Commissioner Boland: yes; Commissioner McMahon: yes; Counselor Hedderman: yes; Counselor Gabriel: yes; and Treasurer Grossman: yes. Motion approved 5-0.

The Commission reconvened at 11:11 a.m. with a motion to adjourn being made by Counselor Jane Gabriel and seconded by Counselor Jennifer Hedderman. Motion approved 5-0.