

Massachusetts State Lottery Commission
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STEVEN GROSSMAN
Treasurer and Receiver General

PAUL STERNBURG
Executive Director

DATE: December 18, 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
Martin Benison, Commissioner
Acting General Counsel Jane Gabriel, designee of
Commissioner Marybeth Heffernan
Beth Boland, Commissioner (arrived @ 10:25)
Tim McMahan, 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 to the Director, Lottery
Cathy Judd-Stein, Assistant Executive Director of Policy
and Special Counsel, Lottery
David Sweeney, Chief Financial Officer, Lottery
Jamey Tesler, General Counsel, Treasury
Jon Carlisle, Director of Communications, Treasury
Al Gordon, Director of Policy, Treasury
Andy Metzger, State House News Service

Connelly Partners: Eric Noar
Ashley McGilloway
Richard Weinstein
Robert Frasca

1.0 Opening of the Meeting

Treasurer Grossman opened the meeting at 10:12 a.m.

2.0 Acceptance of the Minutes of the Meeting of November 27, 2012

Treasurer Grossman asked the Commission to accept the minutes of November 27, 2012. Commissioner Benison made a motion to accept the minutes of the meeting and Acting General Counselor Gabriel seconded the motion. The minutes were unanimously approved at 4-0.

3.0 EXECUTIVE DIRECTOR REPORT

Director Sternburg presented the Executive Director's report for December (Please reference the handout).

Director Sternburg gave an update on Lottery sales as they continue to grow with overall November sales up \$32 million over November 2011. Treasurer Grossman stated that he recently testified at the consensus revenue hearing providing a Lottery profit projection of \$927 million for this fiscal year and he feels that is a rock solid figure at this time. Sometime after February, 2013, the data will be reviewed and the projection will be revised if necessary.

Ms. Bresnahan and the guests from Connolly Partners briefed the Commission on the upcoming advertising for the 50/50 Raffle. Director Sternburg explained the positive impact advertising had on the Powerball campaign and hopes for the same results with the 50/50 raffle. Treasurer Grossman noted that for every \$1 of advertising you spend, you gain \$2 in profit.

Treasurer Grossman stated that at the consensus revenue hearing there was a suggestion of a 1% decrease in the Lottery's advertising budget, 1% translates to approximately a \$900,000 budget reduction. Treasurer Grossman felt this is an inappropriate decision, noting that a \$900,000 reduction could result in a \$20 - \$27 million decrease in net profit.

Director Sternburg reviewed the sales of all the Lottery games and the November revenue results. Director Sternburg noted that the Instant Ticket sales last week were the best in eight (8) years. The chart demonstrating the net profit was right on target according to Director Sternburg, who noted that sales are \$88 million ahead of last year as stated in the monthly letter Director Sternburg forwards to the Commissioners. Treasurer Grossman explained that the letter is sent to those who have an interest in the Lottery, so that there are no surprises.

4.0 LOTTERY REFORM SCORECARD

Governance: Ms. Judd-Stein noted that the State Ethics Commission has announced that the new online test, which was revised over the last year, is now available to all state agencies. The Lottery will begin implementation in January. Under the ethics reform statute, all public employees must be tested every two years.

Operations: The Lottery is finalizing for distribution a new manual for sales agents clarifying their responsibilities and revising policies and procedures for the Compliance Department.

Ms. Judd-Stein explained that the manual will prescribe clearly defined rules and practices as a tool for the agents and their employees. Early next year the new policies and procedures for the Compliance Department will be completed. These policies and procedures will be electronically filed and accessible at all times. All Lottery employees

must follow and adhere to these policies. Treasurer Grossman explained that Director Sternburg had asked Ms. Judd-Stein to oversee reform agenda and prepare “specific, clear, in writing policies and procedures.”

Commissioner Benison asked about the Compliance testing. Director Sternburg explained the testing (of vendors) would be completed over the first or second weeks of January.

Director Sternburg then explained that the sales agents’ manual would be distributed in January and it would remind agents of certain rules; for instance, that only retailers can operate the lottery terminals. He also stated that the revised policy regulating our sting operations will be in effect shortly. Director Sternburg updated the Commissioners with regard to the “sting” operations and the fact that the Lottery had its first conviction with the help of the Norfolk County District Attorney’s Office. The Lottery wants to send a message to the agents that if you try to cheat our players we will take action. Commissioner Benison asked if we also inform an agent if they pass a sting, similar to the way the alcohol stings are done by sending a letter. Counselor Egan said that it is not currently the practice at the Lottery, but he felt it was a good idea. Counselor Egan also suggested communicating in our agent newsletter “Lottery Lines” or sending messages (special reports) through the terminal which keeps the terminal from operating until the message is taken.

Next, Treasurer Grossman then reminded the Commission that Inspector General Greg Sullivan issued his report on Cash WinFall on July 27, 2012. That report was posted on the Treasury’s website, along with the Treasurer’s comments, ideas and suggestions. He indicated that the Lottery would be taking steps over the next month to update the Commission on how the Lottery has addressed the IG’s findings: Ms. Judd-Stein would be preparing a report on the Lottery’s response to issues raised in the report, which will be completed before the next Commission meeting. The manual for the sales agents would be finalized, printed and distributed before the end of January. And the policies and procedures for the Compliance Department would be vetted and finalized for execution early in the year. Commissioner Boland felt great work was done with regard to Cash WinFall and that, while she does not mean to point a finger, compliance needs to ensure compliance from top to bottom. She also stated that credibility is the most important asset the Lottery possesses. She then thanked Ms. Judd-Stein.

5.0 Votes presented to the Commission (10:51 a.m.)

- 5.1 For the reasons set forth in the attached memorandum dated December 3, 2012, the Executive Director is authorized to enter into amend the existing contract for the purchase of motor vehicles in accordance with the following company:

MHQ Municipal Vehicles
410 Elm Street
Marlboro, MA 01752

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

The maximum obligation under the contract with MHQ Municipal Vehicles shall be increased by two hundred and six thousand, one hundred-fifty dollars (\$206,150.00), so that the maximum obligation under the contract shall not exceed one million, one hundred ninety thousand, and seven hundred and seventy-two dollars (\$1,190,772.00).

Counselor Egan explained that the amount would cover the cost of 10 Ford Escapes and they returned to the Commissioners for a vote because that was the condition of the initial vote.

Treasurer Grossman asked for a motion to authorize the Executive Director to enter into amend the existing contract for the purchase of motor vehicles with MHQ Municipal Vehicles. Motion was made by Commissioner Boland and seconded by Commissioner Benison. Motion approved 5-0 at 10:54 a.m.

Task Force Update:

Treasurer Grossman reviewed the Task Force findings with the Commissioners and reminded them that they were emailed a copy of the final report. Based on the Department of Justice ruling last December, he felt it was essential to establish a task force. The Internet is an imminent threat to Lottery sales and to engage in online sales changes must be made to the laws of the Commonwealth, that require approval of the Legislature. It is also essential to protect the 7,400 retailers that have been the backbone of the Lottery for 40 years. Many of them are small businesses that have made a commitment to the Lottery. There is also the issue of credit card limitation which is an issue for problem gambling. The Lottery needs to work closely with other organizations so as not to hurt the Gaming Commission.

The consensus is to move forward and lift restrictions so that we can test Internet sales. Two of the consultants from Spectrum, who have quite a bit experience in the European market, indicated sports betting accounts for 40% of the player activity in Europe and sports betting is not allowed in the U.S. The European model is very different from that of the U.S. SocialSphere, the company that performed market research for the Task Force, has had ten (10) years experience studying Massachusetts Lottery players and provided useful insight to the Task Force. The cost of entry could be significant -- estimated at \$100 million or possibly more. However, the Treasurer indicated that he would require full testing of Internet sales before investing the taxpayer's money .

One idea being explored to protect retailers is to require potential players to buy gift cards at agent locations to gain access to Internet games. This would allow the agent to receive commission. The Lottery must make sure we are mindful of and challenge the effect the Internet has on the Lottery, while at the same time working with the Gaming Commission. We need to have the Lottery move as quickly as possible.

Commissioner Boland spoke about her observations from serving on the Task Force. She stated that the retailers feel very threatened. She feels they were well represented at the meetings and are being heard loud and clear. We must now decide the degree to which the retailer is involved.

Treasurer Grossman reminded the Commissioners about the Kyle/Reid bill which would give Nevada an advantage over all other lotteries.

Treasurer Grossman formally addressed his position to seek enabling legislation. He reminded the Commissioners that had let them know in advance his intention to inform the Massachusetts congressional delegation and other members of Congress of his opposition to the Kyle/Reid bill. Now, he said he was asking the Commissioners for their okay to pursue enabling legislation. The Commissioners were all in agreement that taking no action was not the way to go and supported the Treasurer's plan.

Treasurer Grossman then said he is looking for a motion to convene in executive session to allow the Commission to discuss the litigation position of the Commission because an open meeting may have a detrimental effect on the future litigation position of the Commission. This exception to the open meeting law is found in Massachusetts General Laws c. 30A, §21(a)(3).

The only votes that will be taken in executive session will be a vote to approve the minutes of previous executive session. The Commission will reconvene in open session prior to adjourning and no further discussion will take place.

The motion was made by Acting General Counsel Jane Gabriel and seconded by Commissioner Benison at 11:07 a.m. A roll call vote was taken: Commissioner Boland: yes; Commissioner McMahon: yes; Commissioner Benison: yes; Acting General Counsel Gabriel: yes and Treasurer Grossman: yes. Motion approved 5-0.

The Commission reconvened at 11:34 a.m. with a motion to adjourn being made by Commissioner Benison and seconded by Acting General Counselor Jane Gabriel. Motion approved 5-0.