

Massachusetts State Lottery Commission

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STEVEN GROSSMAN

Treasurer and Receiver General

PAUL STERNBURG

Executive Director

DATE: February 28, 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
Beth Boland, Commissioner
Tim McMahon, Commissioner
Jane Gabriel, Acting General Counsel; designee for Mary Beth
Heffernan, Commissioner

ALSO PRESENT: Paul Sternburg, Executive Director, Lottery
William Egan, General Counsel, Lottery
Jean Caron, Executive Assistant, Lottery
Beth Bresnahan, Director of Marketing and Communications,
Lottery
Cathy Judd-Stein, Assistant Executive Director of Policy
and Special Counsel, Lottery
David Sweeney, Chief Financial Director, Lottery
Shanel Lindsay, Assistant Executive Director of Human
Resources and Employment Counsel, Lottery
James MacDonald, Deputy Treasurer
Jamey Tesler, General Counsel, Treasury
Al Gordon, Director of Policy
Owen Doherty, On-line Product Manager
Chandra Allard, Special Assistant, Chief of Staff, Treasury
Kyle Chaney, State House News

I. Opening of the Meeting

Treasurer Grossman opened the meeting at 10:05 a.m.

1.0 Acceptance of the Minutes of the Meeting of January 31, 2012

Treasurer Grossman asked the Commission to accept the minutes of the January 31, 2012 meeting. Commissioner Benison made a motion to accept the minutes from January 31, 2012

meeting and Commissioner McMahon seconded the motion. The minutes were unanimously approved 3-0 (1).

Acceptance of the Executive Session Minutes of the Meeting

Treasurer Grossman asked the Commission to accept the Executive Session minutes of the August 23, 2011 meeting. Commissioner Benison made a motion to accept the minutes from the August 23, 2011 meeting and Commissioner McMahon seconded the motion. The minutes were unanimously approved 3-0 (1).

Treasurer Grossman asked the Commission to accept the Executive Session minutes of the October 5, 2011 meeting. Commissioner Benison made a motion to accept the minutes from the October 5, 2011 meeting and Commissioner McMahon seconded the motion. The minutes were unanimously approved 3-0 (1).

Treasurer Grossman asked the Commission to accept the Executive Session minutes of the November 29, 2011 meeting. Commissioner Benison made a motion to accept the minutes from November 29, 2011 meeting and Commissioner McMahon seconded the motion. The minutes were unanimously approved 3-0 (1).

Treasurer Grossman asked the Commission to make a motion to move the Executive Session minutes out of Executive session and into Public Record. Commissioner Benison wanted it noted that he had designated Jenny Hedderman, General Counsel CTR, to be at the August 23, 2011, October 5, 2011 and November 29, 2011 Commission meetings. He met with Ms. Hedderman after each of the meetings and approved. Commissioner Benison made a motion to move the Executive Session minutes out of Executive session and into Public Record and Commissioner McMahon seconded the motion. The move was unanimously approved 4-0.

2.0 EXECUTIVE DIRECTOR REPORT

Director Sternburg reviewed the Sales Update for January, 2012. Overall sales were up \$38 million higher than January, 2011. January's sales along with a decrease of 1.9% in prize payouts of 73.8% compared to 75.7% in January, 2011 raised the Lottery's net profit for the month to \$40.8 million higher than last year and \$12 million higher than last month.

Director Sternburg attributed the increase in sales not only to the \$35 million bump in the Instant ticket portfolio, and the increase of the on-line games, but also to the great weather we have had this winter. We have had an average of 7 inches of snow this year as compared to last winter when we had 70 inches of snow. The \$35 million increase in the Instant Ticket sales is the best week we have had historically. Director Sternburg provided updates on the following games:

- Mass Cash is now being offered 7 nights a week and has seen a \$3 million increase.
- Powerball has had higher jackpots this year and the game has had a sales increase of \$3 million in spite of an increased price point of \$2 beginning January 15, 2012.
- KENO has had a \$5 million increase in sales.

Treasurer Grossman said the Lottery continues to do extraordinarily well this year. He said there are two things that attribute to the success of the Lottery; sales and payouts. He gave a

brief review of his testimony with the House, Ways and Means last month and his view on the importance of knowing the Lottery portfolio.

Treasurer Grossman also recapped the Lottery FY11 revenue which was originally estimated at \$898 million, but was adjusted by the former administration to \$870 million. The \$870 million was the estimate at the start of FY12 until it was adjusted in December, 2011 to \$905 million based on the first 5 months of profit. Treasurer Grossman readjusted the projection for FY12 to \$916 million due to even higher estimated profits. The Lottery issues a weekly sales chart every Monday. As of Monday, February 27, 2012, the year-to-date sales increased by \$169 million which is a 5.78% increase. Average payout is approximately 72.3%. Treasurer Grossman has requested an increase in the Lottery advertising budget from \$2 million to \$5 million for FY13 which is currently waiting for the Governors approval.

Director Sternburg reviewed the recent release (February 21st) of the four new instant tickets. The fluorescent eye-catching ticket offers a set amount of money per week for life. There is a suite of four games; the \$1 ticket offers \$500 a week for life, the \$2 ticket offers \$1,000 a week for life, the \$5 ticket offers \$2,500 a week for life and the \$10 ticket offers \$5,000 a week for life. These tickets have out-performed all games this year with 4-day sales of \$278,434 for the \$1 ticket, \$1,067,550 for the \$2 ticket, \$2,286,130 for the \$5 ticket and \$2,366,050 for the \$10 ticket.

The new on-line game replacing Cash Winfall is called Lucky for Life, a multi-state on-line game partnered with lotteries in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. This is the first on-line Lottery game played in all six New England states. The tickets cost \$2 a piece, and the top prize is \$1,000 per day for the winner's life. The game goes on sale beginning Sunday, March 11th with the first drawing taking place on Thursday, March 15th. The drawings take place on Monday and Thursday in Connecticut at FOX CT/Channel 61 at 10:38 pm. The game results and drawing video will be posted on masslottery.com. Director Sternburg has been elected as Lead Director by a unanimous vote of the New England Lottery Directors.

Mr. Owen Doherty, Marketing Developer, was a key player in coordinating with the other states and for advertising and development of the television ad that includes all six states as well as all point of sale items. There will be a vote later in this session to adopt and participate in the Lucky for Life on-line game and adopt its rules and regulations.

LOTTERY REFORM SCORECARD

Ms. Judd-Stein noted that the Executive Director has executed a new Wireless Device Policy regarding proper usage of wireless devices issued to employees for Lottery-related business, ensuring transparency of usage, accountability and cost-savings. The monthly bills are now more detailed to help identify misuse and achieve cost savings. Director Sternburg estimated that the Lottery issues approximately 135-140 wireless devices, including Blackberry's, two-way radios and Order-Pad tablets that the field representatives use for details of their agents.

Ms. Shanel Lindsay addressed the on-going labor negotiations with SEIU 888. Counselor Egan stressed how lucky the Lottery was to have Ms. Lindsay and that the management team is very pleased with the results. Ms. Lindsay referred to the negotiations as a "Win – Win for everyone".

3.0 Votes presented to the Commission

3.1 For the purposes of allowing the Lottery's participation in the Lucky for Life New England Regional Game, the Commission authorizes the following:

- 1.) Pursuant to Massachusetts General Laws, Chapter 10, Section 24A, the Commission authorizes the Executive Director to enter into the Lucky for Life Legal Agreement to allow for the Massachusetts Lottery's participation in the New England Regional Game;
- 2.) Pursuant to the provisions of Massachusetts General Laws, Chapter 30A, Section 3 and Chapter 10 Section 24, the Commission finds that it is in the best interests of the Commonwealth to adopt the attached amendments to the official Rules and Regulations of the Massachusetts State Lottery Commission as Permanent Regulations. Specifically, the Rules and Regulations are changed by amending the following section:

961CMR 2.63

Director Sternburg stated that this game was the combined hard work and efforts of all six Lotteries. He commended his staff in particular for all their efforts. It was almost a year long undertaking. He said that there are just a couple of issues to address for the signing of the Multi-State Agreement. Commissioner Boland asked what the issues were and Counselor Egan explained the first as being the measuring life of a winner. Massachusetts recognizes one winner per winning ticket whereas the other states allow more than one winner. However, the participating lotteries have not ever had a Lifetime game. The second issue was the annuities. Massachusetts does not use MUSL to purchase our annuities, with the exception of multi-state games such as Powerball. The suggestion of Massachusetts buying annuities for all other states was discussed but it would be a huge liability. Agreement was made to use MUSL services. Commissioner Boland asked if there were any risks, and Director Sternburg assured her there were none. Commissioner Boland asked if there would be any benefit of Director Sternburg being the Lead Director of Lucky for Life, and Director Sternburg assured her that it was because Massachusetts is the largest of the six Lotteries, and we would have a bigger percentage of sales and winners.

A motion for the Commission to authorize the Executive Director to enter into the Lucky for Life Legal Agreement to allow for the Massachusetts State Lottery's participation in the New England Regional Game; and to adopt the attached amendments to the official Rules and Regulations of the Massachusetts State Lottery Commission as Permanent Regulations. Specifically the Rules and Regulations are changed by adding the following section: 961 CMR 2.64. Motion was made by Commissioner Boland and seconded by Counselor Jane Gabriel; designee for Commissioner Mary Beth Heffernan. Motion approved 5-0.

3.2 For the reasons set forth in the attached memorandum dated February 27, 2012, the Executive Director is authorized to enter into a three-year contract for the purchase of Self Service Player Activated Terminals with the following companies:

GTECH Corporation
55 Technology Way
West Greenwich, Rhode Island

This award is made pursuant to a competitive bid process (RFR Lot #1113), in which three firms submitted compliant responses.

The maximum obligation assumed hereunder shall not exceed five-million, seven-hundred thousand, four-hundred and twenty-one dollars.

Treasurer Grossman reminded the Commission that back on October 20, 2011, the Commission voted to approve to the negotiation of this contract with stipulation that the Lottery report back to the Commission.

Mr. Sweeney explained that the primary issue back in November, 2011, was the price per unit. If 350 PAT's were purchased, the cost would be \$14,400 each. The initial purchase of 100 units would be \$22,350 each and an initial \$359,966 for software and technology. The price for the remaining 250 units under contract would be \$10,800. The final average price per PAT at the end of the 3 year contract would be \$14,100. Director Sternburg plans to install the initial 100 PAT's in CVS, Rite-Aid, K-mart and Logan Airport.

GTECH estimates that 350 PAT's would generate \$7 million dollars in sales. Director Sternburg is expecting better results. Commissioner Boland asked if GTECH's survey had taken into consideration the amount of sales generated in Massachusetts as compared to any other state. Director Sternburg said that the estimates don't necessarily provide for this fact. Commissioner Boland asked Director Sternburg if he felt that this style of a vending machine would draw in younger demographics. Director Sternburg felt that it would definitely appeal to a younger demographic due to the very visible, eye-catching design and the technological aspect that the younger demographic look for. Treasurer Grossman asked when they would begin installing, and Director Sternburg replied that they would be installed by June 30, 2012. Treasurer Grossman asked that there be a quarterly report presented to the Commission.

Commissioner Benison stated that the GTECH negotiations are sound and right providing we can opt out if further appropriation is not approved.

A motion to authorize the Executive Director to enter into a three-year contract for maximum obligation requested for the purchase of Self Service Player Activated Terminals with GTECH Corporation was made by Commissioner Benison and seconded by Commissioner Boland. Motion approved 5 – 0.

3.3 Executive Director Compensation.

Treasurer Grossman opened the vote by commending Director Sternburg on his performance over the past year. Director Sternburg's anniversary date was January 31st. Profits have increased from \$870,000,000 to \$916,000,000; which is \$46,000,000 ahead of profitability from the previous Director as of December, 2010.

Treasurer Grossman shared an analysis taken of the Directors salaries in all Lotteries with at least \$1 billion in sales. After reviewing the survey, Treasurer Grossman recommended a salary of \$130,000 effective immediately. Commissioner Boland felt the salary chart was helpful but felt the Commission should be mindful of the increased percentage of sales numbers along with Director Sternburg's performance. She felt he has done a great job and that the salary is quite low compared to other states. She asked if there was any type of bonus available to the Director. Treasurer Grossman felt that a bonus be discussed by the Compensation Committee, but there is nothing in place now.

Treasurer Grossman addressed the Commission stating the need for a Compensation Committee meeting that would be about an hour long. He discussed the possibility of having this meeting either before or after a Commission meeting. He also stressed the importance of a meeting once a year in Braintree with the Executive staff. A strategic plan in writing would be in advance of the meeting. Commissioner Boland thought that was an excellent idea which would allow the Commission to see the Lottery at work.

Commissioner Benison said that under the leadership of Treasurer Grossman, Director Sternburg has done a great job and the salary suggestion of \$130,000 seemed very reasonable. Treasurer Grossman agreed saying he felt that the CEO of a \$5 billion company should be compensated.

Jane Gabriel, Acting General Counsel; designee for Commissioner Heffernan, asked how many members there were in the Executive Staff to which Director Sternburg answered there are 9 members in his Executive Staff.

Commissioner McMahon felt Director Sternburg has done a great job under the leadership of the Treasurer. The Lottery is doing extremely well, and the salary increase is very reasonable. Commissioner McMahon then addressed Director Sternburg and said "You are well worth \$130,000 in many aspects."

Treasurer Grossman said that whereas Director Sternburg was hired January 31st that he would like the salary increase to be effective retroactively to February 1st, 2012.

A motion to approve the salary increase of Director Sternburg to \$130,000 effective February 1, 2012 was made by Commissioner Boland and seconded by Commissioner Benison. Motion approved 5 – 0.

OTHER AGENDA ITEMS:

Treasurer Grossman invited the Commission to attend the 40th Anniversary celebration on April 18th, 2012 at noon in the Great Hall at the State House. The mid-day drawing will be held at the event. Beth Bresnahan will share more information at the next Commission meeting on April 2, 2012.

The next Commission meeting will be held on Monday, April 2nd at 9:00 a.m. On Monday, April 30th, 2012 the Commission will meet again with a Compensation Policy Committee taking place at 9:00 a.m. before the Commission meeting.

Treasurer Grossman thanked everyone for attending the Commission meeting. The meeting was adjourned at 11:21 a.m. with a motion made by Acting General Counselor Jane Gabriel (designee for Commissioner Heffernan) and seconded by Commissioner Boland. Motion approved 5 – 0.

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STEVEN GROSSMAN
Treasurer and Receiver General

PAUL STERNBURG
Executive Director

MINUTES

SPECIAL COMMISSION MEETING

DATE: March 8, 2012

TIME: 3:00 p.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; designee for Mary Beth
Heffernan, Commissioner

ALSO PRESENT: Paul Sternburg, Executive Director, Lottery
William Egan, General Counsel, Lottery
Jean Caron, Executive Assistant, Lottery
Cathy Judd-Stein, Assistant Executive Director of Policy
and Special Counsel, Lottery
David Sweeney, Chief Financial Officer, Lottery
James MacDonald, First Deputy Treasurer
Jamey Tesler, General Counsel, Treasury
Al Gordon, Deputy Treasurer of Policy
John Carlisle, Director of Communications

ATTENDING: Robert Frasca, North End

I. Opening of the Meeting

Treasurer Grossman first asked all in attendance to introduce themselves and then called the meeting to order at 3:05 p.m.

II. Matters Requiring Massachusetts State Lottery Approval: Discussion and Vote

A. Treasurer Grossman explained that although the timing of the creation of the Task Force immediately followed the decision of the Department of Justice ("DOJ") on December 23, 2011, we had

been talking about the need to convene on this issue the last six months, particularly in response to the emerging casino industry and global internet gaming. Our goal, he added, is to maximize revenues in a way that is consistent with our values. We have to answer questions regarding the introduction of credit cards to pay for online products and related issues on problem gambling. Do we disturb our business model of the Lottery – with 7,400 agents who are responsible for 10's of thousands, if not 100's of thousands of jobs? So we created the Online Products Task Force.

B. Treasurer Grossman noted that the Task Force includes representatives from the Lottery and the Treasury, a representative from the retailers, a Lottery Commissioner – Beth Boland, David Fubini of McKinsey, Tom Herman of Smith Duggan. We determined that we would need legal counsel for an opinion and hired Greenberg Traurig and that we would need a consultant. We explained to the Task Force that we would hire the consultant around March 1st, and receive an interim report around the first of May and a final report by November 28th. We want to wrap this up this year. The Treasurer added that the Lottery is doing great, currently projecting \$916 million in net profits. He then turned to the memorandum in the materials.

C. Cathy Judd-Stein explained that the memo was intended to give details of the Lottery's procurement process. The Lottery had several meetings and after posting its RFR, received seven bids - six responsive ones. The Procurement Management Team ("PMT") reviewed the submissions in detail. After scoring business and technical points, three top competitive bids emerged. The PMT conducted interviews which were helpful, scored their performances and continued to have strong contenders. The Cost Tables revealed a broad range of bids. To help better understand them, the PMT asked each bidder to provide a total maximum price, and then asked each for a best and final offer. Spectrum remained the leader throughout the process. Ultimately, after negotiating with Counselor Bill Egan, Spectrum reduced its bid further. Ms. Judd-Stein pointed out that this remains a total maximum price contract, adding that the final amount might come down in light of the provision of Greenberg Traurig's legal opinion. Ms. Judd-Stein cited the PMT's efforts, including those of Al Gordon, Paul Mandeville, Beth Bresnahan, David Sweeney and Bill Egan.

D. Al Gordon explained that we were very happy with the high scorer – also affordable without having to sacrifice quality regarding any of the deliverables or expectations under our specifications. The Treasurer asked David Sweeney, "In your judgment, from a budgetary perspective, is this amount something the Lottery can handle?" Mr. Sweeney explained that the bid had come out almost exactly to the amount that the Lottery had set aside in advance for this contract.

E. Counselor Jenny Hedderman asked whether the contract specifications addressed social engineering and phishing on the internet. Mr. Gordon indicated that security issues will be examined as part of the scope of the contract. Counselor Jane Gabriel asked if the Lottery has experience with this contractor, and the Treasurer asked if the Lottery had performed reference checks. Counselor Egan responded, yes, that he had reached out to contacts in both Delaware and Georgia. Treasurer Grossman also noted that David Sweeney was familiar with Spectrum's work in connection with his work with Speaker DeLeo. Mr. Sweeney explained that the House held a high opinion of Spectrum for both the quality of its work and cost effectiveness. And the Treasurer asked Mr. Sweeney if he could confirm that Spectrum demonstrated a capacity to meet timelines, to which Mr. Sweeney responded, "yes."

F. The Treasurer asked if there were a motion to authorize the Lottery's Executive Director to enter into a contract for one-year, with a one-year extension, for consultant services in the area of online gaming with Spectrum Gaming Group, LLC. Counselor Hedderman so moved, and Counselor Gabriel seconded the motion. The motion was approved: 3-0.

G. The Treasurer wanted to say on behalf of the Commission, "A vast amount of work on this procurement has been performed requiring hours and hours that have required other matters to be put aside. To Al, Cathy, David, Paul, Beth, Bill, Paul and Donna Walsh, our profound appreciation." He added that we have a lot of work to do with regard to the ISYS. It is of particular importance and he's deeply grateful. Al then stated: "Just want to make sure to note on record that no decision has been made to go forward. A possible outcome is 'Don't do it.'" The Treasurer closed, saying "We have a very successful lottery, but we have an obligation to plan ahead. The DOJ appears to have allowed all but sports betting."

III. Adjourn

Treasurer Grossman thanked everyone for attending the Commission meeting. The meeting was adjourned with a motion made by Counselor Jane Gabriel and seconded by Counselor Jenny Hedderman. Motion approved: 3- 0.