

Massachusetts State Lottery Commission

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STEVEN GROSSMAN

Treasurer and Receiver General

PAUL STERNBURG

Executive Director

DATE: January 31, 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
Jenny Hedderman, General Counsel, CTR; designee for
Martin Benison, Commissioner
Beth Boland, Commissioner
Tim McMahon, Commissioner
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 Officer, 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

Robert Frasca

I. Opening of the Meeting

Treasurer Grossman opened the meeting at 10:06 a.m.

1.0 Acceptance of the Minutes of the Meeting of December 20, 2011

Treasurer Grossman asked the Commission to accept the minutes of the December 20, 2011 meeting. Commissioner Boland brought to the attention of the Commissioners that in the Executive Director Report on page 3 it states "Commissioner Boland cautioned Director Sternburg about paying attention to the regulations of debit cards." It should have read: "Commissioner Boland cautioned Director Sternburg about paying attention to the data security regulations of debit cards. Commissioner McMahon made a motion to accept the minutes from the December 20, 2011 meeting and Commissioner Boland seconded the motion. The minutes were unanimously approved 5-0.

2.0 EXECUTIVE DIRECTOR REPORT

Director Sternburg reviewed the Sales Update for the month of December, 2011. Overall sales were up \$28.7 million higher than December, 2010. As a result of strong sales during the first half of the year, Treasurer Grossman raised the Lottery's estimated net profit to \$905 million. Originally estimated at \$894 million the beginning of the year, Treasurer Grossman shared the news of the projected \$11 million increase in his testimony at last month's consensus revenue hearing. December's sales increase of Instant tickets was \$23 million due to the holiday-themed tickets and the fact that the holidays fell on Sunday giving the Lottery an additional day of sales.

Director Sternburg continued to evaluate each game and their performance for the Commission, as well as previewing the upcoming release of "lifetime tickets" on sale February 21, 2012. This will be a nice lead into the new Lucky for Life game that is replacing Cash Winfall in Mid-March of 2012. Cash Winfall is no longer an on-line game as of January 23, 2012. It ended with the last "roll down". Powerball was up \$1 million but it is too soon to tell if the new \$2 price point as of January 15th will make a difference in sales.

The \$10 million raffle, Mass lottery's first raffle style game, was on sale from October 30th, 2011 – December 31st, 2011. The first drawing was held New Year's Day, 2012. Tickets were \$20 each and sold through the Lottery terminals. Up to 1 million tickets were available; however, only 514,760 tickets @ \$10,295,200 were sold. Raffle sales during the last two weeks accounted for 60% of total sales. The raffle fell short of expectations, but with the increased traffic in stores, instant ticket sales the last week of 2011 were over \$73 million. This was the highest weeks sales since December 2007 and \$23 million higher than 2010 for the same period. Advertising on radio and TV during the last two weeks along with the holiday themed games helped boost sales. A front page Boston Herald story focusing on slow sales and better odds unknowingly helped sales. The biggest challenge we faced was awareness of a new game with a very limited budget. For every dollar (\$1) spent on advertising, there is a return of \$17. The next step is to issue an RFP for a market research firm to conduct a survey with our players, agents and customers who play the lottery but did not buy a raffle ticket. They would then gather feedback and advise how the Lottery could make improvements for future Raffles. Treasurer Grossman spoke of the erratic advertising budget and his request to the Governor for a \$5 million line-item for advertising. This will be available for 2013 if approved by the legislature.

Treasurer Grossman feels the Lottery is doing spectacular. Sales were up \$29 million in December, and now through the month of January sales are up \$127 million. Payouts have been historically at 72.3%, but are now 71.7% which is 6/10% lower, and will generate \$25 million in profit.

LOTTERY REFORM SCORECARD

Human resources has revised the employee evaluation tool and presented it to managers and supervisors for feedback before finalizing the new assessment. This is an essential tool for indentifying employees that do not meet the expectations of their position, and also for identifying exceptional employees.

Procurement, the Expiring Contract Policy has been revised. The six-month advance notice to the Commission to extend a large contract may in some instances need to be extended due to the complexity and constrictions of some contracts.

Governance, the Lottery will develop a mission statement and set of values to clarify its purpose and core values to players, agents, employees and the cities and towns of the Commonwealth.

3.0 Votes presented to the Commission

3.1 Pursuant to the provisions of Massachusetts General Laws, Chapter30A 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

The price point of Powerball will be increasing from \$1 to \$2 as of January 15, 2012. These changes reflect the multi-state agreement with MUSL.

A motion to approve the changes to Powerball was made by Commissioner Heffernan and seconded by Counselor Hedderman. Motion approved 5 – 0.

3.2 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 fourteen-thousand, two-hundred and two dollars (\$14,202.19).

The reimbursement of legal costs for a former Treasurer is covered under Mass.Gen. L. c. 258, section 9. Costs in this case have been approved with the understanding that if any additional or extraordinary legal costs are upcoming, that the Lottery must be informed prior to the incurring of the cost. Counsel Hedderman informed the Commission that attorney fees can be paid out of the settlement and judgments fund administered by the Comptrollers office. Counsel Egan relayed a case update from Attorney Demeo and stated that the discovery deadline is now set for April 2, 2012. He also said the total legal costs for the matter is still under \$50,000.

A motion to authorize the Executive Director to pay legal costs for the representation of former Treasurer Cahill and Executive Director Cavanagh was made by Commissioner Boland and seconded by Commissioner McMahon. Motion approved 5 – 0.

3.3 For the reasons set forth in the attached memorandum dated January 24, 2012, the Executive Director is authorized to enter into a three-year contract for Custodial Services with the following company:

SJ Services
20 Locust Street
Danvers, MA

The award was made pursuant to a competitive bid process (RFR LOT #1203). There were 7 responses received, and this vendor received the highest score.

The maximum obligation assumed hereunder shall be three-hundred four thousand, five-hundred and eighty dollars (\$304,580.00).

Current contract expires 3/7/2012. Six companies visited our locations, and based on our scoring system, SJ Services scored the highest.

A motion to authorize the Executive Director to enter into a three year contract for Custodial Services with SJ Services was made by Commissioner Heffernan and seconded by Commissioner Boland. Motion approved 5 – 0.

3.4 BY-LAWS OF THE MASSACHUSETTS STATE LOTTERY COMMISSION

Ms. Judd-Stein inquired if there were any questions regarding the By-laws. There were none. Treasurer Grossman commented that this being the 40th Anniversary of the Lottery, we have by-laws in place that we are proud of.

A motion to accept the By-Laws was made by Commissioner Boland and seconded by Commissioner Heffernan. Motion approved 5 – 0.

3.5 In accordance with Massachusetts General Laws, chapter 10, section 26, the Director is authorized to enter into contracts for the operation of the Lottery on behalf of the Commission, without specific approval of the Commission, provided that said contracts do not exceed a maximum liability of one-hundred and fifty thousand dollars (\$150,000.00) in any given fiscal year, and the Lottery would continue to seek advance approval from the Commission of all material contracts, *i.e.*, contracts of policy import, regardless of value.

This authorization shall become effective January 31, 2012.

This authorization will increase from \$50,000.00 to \$150,000.00. There will be approximately 20 – 25 RFR's in the next year for operational needs. Passing the resolution will lessen the number of votes the Commission needs to make on the standard acquisition of goods and services. Counselor Egan stated that Lottery will continue to conduct a full RFR process on all acquisitions over \$50,000 and that this request does not change this process. This request would give the Executive Director the authority to sign a contract up to \$150,000 that does not represent a substantial change to Lottery operations.

A motion to authorize the Executive Director to enter into contracts without approval from the Commission, provided said contracts do not exceed a maximum value of \$150,000.00, with the condition that any contract that material will effect Lottery operations, still receives Commission approval. A motion was made by Commissioner Boland and seconded by Counselor Heffernan. Motion approved 5 – 0.

3.6 For the reasons set forth in the attached memorandum dated January 19, 2012, the Executive Director be authorized and is hereby authorized to enter into a six-month contract extension for Custodial Banking Services with the following company:

Citigroup
3 Canal Plaza
Portland, ME

The original award was made pursuant to a competitive bid process in which Citigroup submitted the lowest cost proposal.

The maximum obligation assumed hereunder for the one year contract shall not exceed two-hundred and ten-thousand dollars (\$210,000.00).

A motion to authorize the Executive Director to enter into a six-month contract extension for Custodial Banking Services with Citigroup was made by Commissioner Heffernan and seconded by Counselor Hedderman. Commissioner Boland excused herself from this vote as Citigroup is a client of hers. Motion approved 4 – 0.

3.7 For the reasons set forth in the attached memorandum dated January 27, 2012, the Executive Director is authorized to enter into a contract for USB wristbands with the following company:

Razz-m-Tazz, LLC
Westminster

The award was made pursuant to a competitive bid process where vendors on statewide contract were provided detailed specifications and the opportunity to provide a competitive price. There were six responses received, and this vendor received the highest score.

The maximum obligation assumed hereunder shall be one hundred-thirty thousand dollars (\$130,000.00).

A motion to authorize the Executive Director to enter into a contract extension for USB wristbands with Razz-m-Tazz was made by Commissioner Boland and seconded by Commissioner McMahon. Motion approved 5 – 0.

3.8 Player Activated Terminals

Director Sternburg addressed the Commissioners with regard to the PATS - Player-Activated Terminals. He is currently negotiating a purchase price for 100 terminals. The Lottery will be placing these terminals in CVS, Rite-Aid and Logan Airport. There are still a few details that need to be ironed out, and there will be a presentation at the next commission meeting on February 28th, 2012.

Counselor Egan stated that he spoke with the Inspector General's office, the Operational Services Division and Counselor Hedderman regarding a staggered pricing structure. He explained that the original bid estimated the purchase of 1100 units, and bidders pricing was based on that amount with 350 units purchased in the first year. It appears at this point that 350 units may be the maximum number that may be purchased over three years. GTECH has agreed to hold the quoted price for 350 units versus 1100 units. However, they did not guarantee that price for less than 350 units. In response GTECH proposed a staggered price structure where it offered the first 100 units at a price higher than the quoted price, but last units would be purchased at a lower price so the average price per unit would equal the quoted price. The Lottery believes that this approach still provides the best value because if it were to re-bid for 350 units rather than 1100 units the price would be much higher. All three office's Counselor Egan spoke to agreed with this approach.

Treasurer Grossman thanked everyone for attending the Commission meeting. The meeting was adjourned at 11:45 a.m. with a motion made by Commissioner Heffernan and seconded by Commissioner McMahon. Motion approved 5-0.

The next Commission Meeting will be February 28th, 2012 at 10:00 a.m.

Treasurer Grossman requested a motion to move into Executive session with respect to the bargaining agreement between the Lottery and the Service Employees International Union, Local 888. The exception is found in Massachusetts General Laws c. 30A, §219(a)(3). A roll call vote was taken: Commissioner McMahon: yes; Counselor Hedderman: yes; Commissioner Heffernan: yes; Commissioner Boland: yes; Treasurer Grossman: yes.

Motion to move into executive session was made by Commissioner Heffernan and seconded by Commissioner McMahon at 11:47 a.m.

The Commission reconvened at 12:01 p.m. Commissioner Heffernan made a motion to adjourn and Commissioner McMahon seconded. Motion passed 5-0.