

# Massachusetts State Lottery Commission

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*STEVEN GROSSMAN*

Treasurer and Receiver General

*PAUL STERNBURG*

Executive Director

**DATE:** July 24, 2012

**TIME:** 10:40 a.m.

**PLACE:** Massachusetts State Lottery Commission Headquarters  
Executive Director's Conference Room  
60 Columbian Street  
Braintree, MA

**MEMBERS PRESENT:** Steven Grossman, Treasurer and Receiver General, Chair  
Martin Benison, Commissioner  
Jane Gabriel, Acting General Counsel and designees for  
Mary Beth Heffernan, Commissioner  
Beth Boland, Commissioner (arrived @ 10:55)

**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  
Jamey Tesler, General Counsel, Treasury

## 1.0 Opening of the Meeting

Treasurer Grossman opened the meeting at 10:40 a.m.

## 2.0 Acceptance of the Minutes of the Meeting of June 26, 2012

Treasurer Grossman asked the Commission to accept the minutes of the June 26, 2012 meeting. Commissioner Benison made a motion to accept the minutes of the meeting and Counselor Jane Gabriel seconded the motion. The minutes were unanimously approved 3-0 at 10:41 a.m.

### **3.0 EXECUTIVE DIRECTOR REPORT**

Director Sternburg began his report by saying “It is a great pleasure to report that fiscal year 2012 marks a highpoint in our 40-year history as we produced a record breaking year all around for the Lottery.”

Overall sales for July 1, 2011 through June 30, 2012 were \$4.740 billion, beating the previous sales record of \$4.709 in FY08, an increase of \$31 million. The Lottery is returning an unprecedented \$981 million in net profit to the Commonwealth in FY12; \$87 million higher than the predicted \$894 million that was projected for the year and \$30 million higher than the previous profit record of \$951 million set in FY06. Director Sternburg pointed out that the previous record was achieved with a \$10 million advertising budget; \$8 million higher than FY12. These figures are unaudited, therefore, the amount may go up but it will not go down.

Treasurer Grossman explained that if the Lottery was a publicly owned trading company it would be the 9<sup>th</sup> most profitable in the world. Strong sales in June 2012, two (2) \$10 million and one (1) \$4 million dollar winners, raised overall sales by \$17 million higher than June 2011.

The prize payout for the month was 74.8%, 2.07% higher than 72.73% in June 2011. The increase raised our overall prize payout for the year from 71.45% to 71.65%. Director Sternburg said we will continue with the 72.3% historical average prize payout and will not be raising it for next year. Massachusetts had a mild winter compared to other years and with that good weather comes more opportunity to play and therefore higher jackpots. Treasurer Grossman suggested that the Director take a look at 72.3%; it may not be the best number because of all the changes such as new great eye-catching instant tickets with more profitability. Director Sternburg explained that he is not comfortable changing the prize payout after just one good year. He would rather wait for next year and if the payout is as good again next year he would be comfortable making a change. He said that the Lottery works very conservatively. He will also be launching a strong \$20 ticket with a high prize payout which he expects to do very well.

The increase in June was due largely to a \$13 million bump in the instant ticket portfolio. There was also a \$3 million increase in Powerball due to a higher jackpot than last year and an increase in the ticket price to \$2. Mass Cash had a \$2 million increase; KENO had a \$1 million increase and Lucky for Life brought in \$4 million in new sales for the month.

Four games experienced decreases in June. Mega Millions sales were down \$2 million due to smaller jackpots than in June 2011 and the Numbers game declined \$1 million due to cannibalization following Mass Cash’s expansion to a nightly schedule. Megabucks sales were down \$1 million due to last year’s higher jackpot and Cash Winfall sales were down \$2 million since the game ended on January 23<sup>rd</sup>.

Over the coming weeks, audit work is being done on the year end figures and the final financial statement will be shared in early September. Director Sternburg is comfortable with the net profit of \$981 million being returned to the Commonwealth.

August 2012 Instant Ticket Release includes \$1 Lucky Stars, \$2 Bank On It, \$2 Aces & 8's and \$5 Jumbo Bucks.

Double Platinum Payday was recalled by the Lottery on July 16<sup>th</sup> after identifying quality control errors made by the ticket vendor during the printing process. The \$5 instant ticket had incorrect bundling of the game cards as well as duplicate tickets. GTECH Corporation, the manufacturer of the game, said the problems occurred during the cutting and packaging of the tickets. Several books out of the 25.2 million ticket run had two additional tickets and the following book had two less tickets. GTECH came to Massachusetts and did a complete audit of all the books. Results from the audit showed a duplicate book at which time Director Sternburg felt there were now too many issues and had no choice but to pull the game. This was an integrity issue for the Retailers and the Lottery as well as possible accounting issues. Treasurer Grossman asked how many times this issue had ever occurred and Director Sternburg told him in the past fifteen (15) years it had never happened before. Director Sternburg informed the Commissioners that we would be going into Executive Session to talk further about this issue.

The Daily Race Game will be replaced with another KENO/poker style game and the bids should be out on the street next week.

Lucky for Life is doing well. There will be a second chance promo in September and a new ad campaign. To help boost sales, the Numbers game will also be having a promo from August 5<sup>th</sup> – 18<sup>th</sup> where players have a chance to win \$730. The prize amount is equivalent to the cost of playing the mid-day and evening numbers game every day for a year.

Wednesday, July 18<sup>th</sup> the Lottery partnered with Boston.com in a campaign to promote Powerball's \$100 million jackpot. At the cost of \$3,500 the Lottery received a series of rotating ads (3,900 in total) from 7am – 7pm. Powerball sales for that day were \$18,000 higher than sales for April's nearly \$100 million jackpot and \$70,000 higher than December 2011's \$105 million jackpot.

Revenue results comparing FY12 to FY11 show that the largest source of revenue comes from the Instant Tickets which was up \$237 million higher than FY11. Overall sales were \$300 million higher than FY11. However, pull-tabs and charitable gaming has not been finalized for FY12.

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

Charitable Gaming: The Gaming Commission must file a report by July 31st with regard to charitable gaming, raffles, bazaars and casino nights. With respect to Casino nights and bazaars, the Lottery collects the taxes, but does not monitor the charitable activities as they fall under the Attorney General's responsibilities. The Gaming Commission and the Attorney General's Office have met with the Lottery to determine who should assume responsibility for these activities. Judge McHugh accompanied Director Sternburg to a Bingo game to witness the Lottery's responsibilities. Currently, the Lottery's Asset Protection department audits the bingo games where a five (5) percent tax rate is imposed. The Gaming Commission will be making a recommendation to consolidate oversight of charitable gaming and have the Lottery regulate all charitable games and activities. Jamey Tesler explained that the Gaming Commission will submit its report

and work with the Lottery and the AG's Office in conjunction with the filing of any required legislative filing.

Tribal Gaming Compact: The Treasury and Lottery met with the Governor's Office with respect to the Lottery's position on negotiations with the Mashpee Wampanoag Tribe's gaming compact. Cathy Judd-Stein commended Treasurer Grossman and Director Sternburg for their work and meetings with the Governor and his representatives. The compact was signed by the Governor and the Tribe on July 12th and is awaiting Legislative approval. The signed compact included favorable provisions relating to the Lottery's existing games as well as any potential on-line products. This means that the Tribe cannot offer any games similar to Lottery games; including KENO. If the Lottery receives authorization for internet gaming, the Tribe must renegotiate the Compact.

## **5.0 Votes presented to the Commission (11:20)**

- 5.1 For the reasons set forth in the attached memorandum dated July 13, 2012, the Executive Director is authorized to enter into a five-year lease renewal for the Canton Warehouse and Backup Distribution Center with the following companies:

**RAM Management Company**  
200 US Route 1, Suite 200  
Scarborough, ME

The maximum obligation assumed hereunder for the five-year lease term, shall not exceed one million three hundred fifty thousand dollars (\$1,350,000.00).

DCAM takes the lead on all real estate matters and their recommendation is to stay at a facility for two (2) five-year terms. The rate increases after the 5<sup>th</sup> year to \$9 per square foot and at that time DCAM negotiates. The building is proximate to Headquarters if something should happen and the Lottery needs to operate in Canton. Canton has the ability to transfer very quickly.

Treasurer Grossman asked for a motion to enter into a five-year lease renewal for the Canton Warehouse and Backup Distribution Center with RAM Management Company. Motion was made by Commissioner Boland and seconded by Counselor Jane Gabriel. Motion approved 4-0 at 11:24 a.m.

- 5.2 For the reasons set forth in the attached memorandum dated July 18, 2012, the Executive Director is authorized to enter into an amendment to the three-month contract for Lottery Instant Tickets, Game Designs and Marketing services, by increasing the maximum obligation by two million dollars (\$2,000,000.00), with the following companies:

**GTECH Printing**  
10 Memorial Road  
Providence, RI

**Pollard Banknote Limited**

1499 Buffalo Place  
Winnipeg, Manitoba, Canada

**Scientific Games**  
1500 Bluegrass Lakes Parkway  
Alpharetta, GA

The maximum obligation assumed after the amendment, for the three-month term, shall not exceed six million dollars (\$6,000,000.00)

These are the only three (3) companies in the industry. In April this contract was extended by three (3) months when additional money was also asked for and was told to re-visit in ninety (90) days. The RFR won't be ready until August, but the Instant tickets need to be ordered months ahead. We are looking at Holiday themed tickets now.

Treasurer Grossman asked for a motion to authorize the Executive Director to enter into an amendment to the three-month contract for Lottery Instant Tickets, Game Designs and Marketing services, by increasing the maximum obligation by two million dollars (\$2,000,000.00), with the following companies:

<b>GTECH Printing</b>	<b>Pollard Banknote Limited</b>	<b>Scientific Games</b>
10 Memorial Road	1499 Buffalo Place	1500 Bluegrass Lakes Pkwy
Providence, RI	Winnipeg, Manitoba, Canada	Alpharetta, GA

Motion was made by Commissioner Benison and seconded by Counselor Jane Gabriel.  
Motion approved 4-0-1 at 11:27 a.m.

- 5.3** For the reasons set forth in the attached memorandum dated July 16, 2012, the Executive Director is authorized to exercise the first one-year extension of the contract for ISYS and ITVM Repair and Reconditioning from the following companies:

**GTECH**  
10 Memorial Boulevard  
Providence, RI

**Peripheral Development Corp**  
42 Ladd Street  
West Greenwich, RI

The maximum obligation assumed hereunder, for the one-year extension term, shall not exceed four hundred twenty thousand dollars (\$420,000.00).

This is for FY13 reconditioning of ISYS and ITVM's. This should have been voted on last month, but due to an internal miscommunication it didn't get to the board in time. Counselor Egan apologized to the Commission. Commissioner Boland asked if there was a monetary increase and Director Sternburg told her it was about the same. Counselor Egan looked up the cost table and GTECH actually had a slight decrease and Peripheral Development had a slight increase.

Director Sternburg announced that the one hundred (100) PAT's are all in stock at the Lottery and being programmed. The first test will be done August 1<sup>st</sup> in Lottery Headquarters Lobby. The test will be approximately 3 weeks and then they will begin installing at agent locations. There was a problem with the locking mechanisms and GTECH is replacing all of the locks. There is also a technology upgrade that needs to be done at the cost of \$176,000 that Director Sternburg shared with the commissioners only because he had assured them that he would keep them informed about any costs associated with the PAT's.

Treasurer Grossman asked for a motion to exercise the first one-year extension of the contract for ISYS and ITVM Repair and Reconditioning with GTECH and Peripheral Development Corp. Motion was made by Commissioner Benison and seconded by Counselor Jane Gabriel. Motion approved 4-0 at 11:31 a.m.

- 5.4 For the reasons set forth in the attached memorandum dated July 17, 2012, the Executive Director is authorized to exercise the first one-year extension of the contract for the purchase of ISYS and ITVM parts from the following company:

**GTECH Corporation**  
10 Memorial Drive  
Providence, RI

The maximum obligation assumed hereunder, for the one-year extension term, shall not exceed six hundred fifty thousand dollars (\$650,000.00).

The extension is for the purchase of parts to maintain our ISYS machines and is a good move on our part given the age of the machines. It is likely that we won't use the entire amount but cannot be certain until next year.

Motion was made by Commissioner Benison and seconded by Counselor Jane Gabriel. Motion approved 4-0 at 11:34 a.m.

- 5.5 For the reasons set forth in the attached memorandum dated July 17, 2012, the Executive Director is authorized to enter into a three-year contract for pull tab tickets with the following firms:

American Games, Inc., (A Pollard Banknote Co.)  
504 34<sup>th</sup> Avenue  
Council Bluffs, Iowa 51501-8095

Arrow International, Inc.  
9900 Clinton Road  
Cleveland, Ohio 44144-1097

This original award was made pursuant to competitive bid LOT #1212. The selected vendors were the two of three companies to file responses.

The total maximum obligation assumed under this contract shall not exceed three hundred sixty thousand dollars (\$360,000.00) for the three-year term.

Director Sternburg explained that this is a new RFR for our pull tab tickets. It is a self running game that is popular in bars and taverns. It is a profitable yet labor intensive game requiring accurate accounting and management.

Treasurer Grossman asked for a motion to authorize the executive Director to enter into a three-year contract for pull tab tickets with the following firms:

American Games, Inc.,  
(A Pollard Banknote Co.)  
504 34<sup>th</sup> Avenue  
Council Bluffs, Iowa

Arrow International, Inc  
9900 Clinton Road  
Cleveland, Ohio

Motion was made by Commissioner Benison and seconded by Jane Gabriel. Motion approved 4-0 at 11:36 a.m.

Treasurer Grossman then informed the Commissioners that they would be going into Executive Session with respect to the ongoing issues with the ending of Double Platinum Payday. There will be votes taken in the Executive Session and the Commission will reconvene solely to adjourn the meeting.

The next Commission meeting will be August 24<sup>th</sup>, 2012 at 10:00 am.

Treasurer Grossman requested a motion to move into Executive Session for the purpose of allowing the Commission to discuss its potential litigation position because a discussion in an open meeting may have a detrimental effect on the Commission in the matter. The exception is found in Massachusetts General Laws c. 30A, **§21(a)(3)**. The motion was made by Commissioner Boland and seconded by Commissioner Benison at 11:37 a.m. A roll call vote was taken: Commissioner Benison: yes; Commissioner Boland: yes; Counselor Gabriel: yes and Treasurer Grossman: yes.

The Commission reconvened at 12:02 pm with a motion to adjourn being made by Commissioner Benison and seconded by Counselor Jane Gabriel. Motion approved 4-0.