

Massachusetts State Lottery Commission

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STEVEN GROSSMAN

Treasurer and Receiver General

PAUL STERNBURG

Executive Director

DATE: June 26, 2012

TIME: 10:30 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
Beth Boland, Commissioner
Tim McMahon, Commissioner
Martin Benison, Commissioner
Mary Beth Heffernan, 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
David Sweeney, Chief Financial Officer, Lottery
Cathy Judd-Stein, Assistant Executive Director of Policy
and Special Counsel, Lottery
Jacqueline Kassis, Procurement Supervisor, Lottery
Al Gordon, Deputy Treasurer of Policy

Robert Frasca

1.0 Opening of the Meeting

Treasurer Grossman opened the meeting at 10:30 a.m.

2.0 Acceptance of the Minutes of the Meeting of May 29, 2012

Treasurer Grossman asked the Commission to accept the minutes of the May 29, 2012 meeting. Commissioner Benison made a motion to accept the minutes of the meeting and Commissioner Heffernan seconded the motion. The minutes were unanimously approved 5-0 at 10:31 am.

3.0 EXECUTIVE DIRECTOR REPORT

Director Sternburg began his report by announcing that the Lottery had a great May with sales that were \$32 million higher than May 2011. There was a minor increase of .53% in the prize payout for the month. This increase in payout from 70.8% in May 2011 to 71.33% in May 2012 slightly reduced the net profit increase over last year from \$92.5 million through April to \$92.2 million through May. It also raised overall prize payout for the year from 71.3% to 71.45%. However, of note is the Lottery's historical average prize payout percentage, which we continue to base projections for budget purposes on, is 72.3%.

The increase in May was due largely to a \$30 million sales increase in the instant ticket portfolio; combined with a \$2 million increase in KENO sales and a \$3 million increase in Mass Cash sales. Lucky for Life brought in \$5 million in new sales for the month.

Two games experienced decreases in May. The Numbers game had a \$2 million drop due to cannibalization by Mass Cash. Cash Winfall experienced a \$5 million decrease due to the game ending on January 23rd.

The new instant tickets released in June, 2012 have been on sale for eight (8) days and the sales for this week have been the highest in seven (7) years. Credit goes to Beth Bresnahan for the design of these tickets.

Director Sternburg included a price point comparison of the instant ticket sales for FY11 and FY12 in his presentation. He explained the trends and why these types of comparisons help in deciding price points for the tickets, what aspect needs developing, etc. For example, the \$1 ticket is an entry point and that will attract new players.

Also, included was an example of June's \$10 Million dollar winners and what is posted on our website. Only when these large prizes are claimed is the prize payout and profit figures affected.

There will be a KENO Second Chance Promotion July 4th – 7th for a chance to win \$2,012. A similar promotion during Memorial Day of this year increased sales by \$284,094 on the same days as last year.

Lucky for Life is doing well. There will be TV and radio ads airing this week with funds that were left over from the Celtics & Bruins promotions. We didn't have the funds previously to make a commercial.

The Powerball game is not performing well since raising the price to \$2. Director Sternburg was afraid of this from the start. However, this game is not under his jurisdiction because it is a MUSL game (multi-state).

While the On-line Raffle Game didn't perform as predicted in sales, Director Sternburg is looking to develop a new 50-50 raffle game. Fifty (50) % of the sales would be for prizes and the other 50% goes to the state. The profit margin for this game is roughly 42%. Advertising a future raffle game will be a tremendous help this time around. Director Sternburg also said he would be lowering the price point to \$10.

Treasurer Grossman asked about the Advertising RFR and Ms. Bresnahan told him that it went out last Saturday, the 23rd and that the responses were due by August 14th. The Procurement team then has 3 – 4 weeks to review and will ask the qualifiers to prepare a presentation. According to Ms. Bresnahan the award should be finalized in September. The presentation that responding companies are asked to prepare is an advertising plan for the holiday ticket release. This would enable the Lottery to employ the plan offered by the winning bidder immediately, i.e. after a September awarding of the contract.

Overall sales are \$297 million higher than last year. In 2006, which was the last record breaking year, the “profit” margin was \$951 million and for 2012 the margin is \$973 million, but that could change prior to the end of the fiscal year. There is no way to tell what will happen with payouts or sales the last 5 days of the fiscal year. One large jackpot presented for payment can change everything. There will be a full report at the next Commission meeting.

Director Sternburg also brought up the Hold ‘em Poker tournament and the fact that even though that ticket went on sale seven (7) years ago the tournament will be held in 2013 because sales were very slow on this game. That prize money will come out of the FY13 budget. The grand prize is \$10,000,000 with three (3) \$1,000,000 runner-up prizes. Treasurer Grossman asked if there were another game with the same long term projection, could the Lottery set aside money in escrow so that it will accrue and smooth out the impact on the bottom line. Commissioner Benison said that accruing a financial obligation in one fiscal year and paying it from the revenues of another would need to be checked in the state finance statutes.

Commissioner Boland applauded Director Sternburg on a record breaking year.

4.0 LOTTERY REFORM SCORECARD

Operations: We have commenced review and revision of compliance policies and procedures.

Governance: The Compensation Committee has met three (3) times to develop and finalize its charter. The charter was approved at the Compensation Committee meeting held immediately before this Commission meeting. Reportedly, there is not another state agency with a compensation committee charter. Treasurer Grossman explained that this is setting the standard for state government and he felt this was the way to go.

5.0 Votes presented to the Commission (10:56)

- 5.1 For the reasons set forth in the attached memorandum dated June 12, 2012, the Executive Director is authorized to enter into a three-month contract extension for Custodial Banking Services with the following company:

Citi Group
3 Canal Plaza
Portland, ME

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

The maximum obligation assumed hereunder for the three month contract shall not exceed one hundred and six thousand dollars (\$106,000.00).

Mr. Sweeney met with the new vendor and spoke with Citi Group. The last time custodians was changed was five (5) years ago. Changing to Xerox ACS would be an approximate savings of \$593,000.00. There will be some overlap but both companies need to operate in the beginning to get Xerox on board.

Treasurer Grossman asked for a motion to enter into a three-month contract extension for Custodial Banking Services with Citi Group. Motion was made by Commissioner Heffernan and seconded by Commissioner Benison. Commissioner Boland abstained from the vote as this is a client of her firm. Motion approved 4-0-1 at 11:00 a.m.

- 5.2** For the reasons set forth in the attached memorandum dated June 13, 2012, the Executive Director is hereby authorized to enter into an amendment for the current year contract for Auditing Services with the following company:

KPMG LLP
Two Financial Center
60 South Street
Boston, MA

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

The maximum obligation assumed hereunder would increase by six thousand, five hundred dollars (\$6,500.00) making the total maximum obligation under the contract not to exceed five hundred-four thousand, eight hundred and fifteen dollars (\$504,815.00).

Mr. Sweeney explained that the extension was approved last month by the Commission; however, there was an error in calculation. The original amount was based on last years pricing. This is an agreed upon procedure for the Lucky for Life bylaws.

Treasurer Grossman asked for a motion to authorize the Executive Director to enter into an amendment for the current year contract for Auditing Services with KPMG LLP. Motion was made by Commissioner Benison and seconded by Commissioner Heffernan. Commissioner Boland abstained from the vote as this is a client. Motion approved 4-0-1 at 11:02 a.m.

- 5.3** For the reasons set forth in the attached memorandum dated June 12, 2012, the Executive Director is authorized to enter into a three-year contract for terminal ribbon printer cartridges with the following firm:

GTECH
10 Memorial Boulevard
Providence, RI

This original award was made pursuant to a competitive bid LOT #1209. The selected vendor was one of two companies to file responses.

The total maximum obligation assumed under this contract shall not exceed two million, one hundred sixty-four thousand dollars (\$2,164,000.00).

This is a new contract and a new RFR for printer cartridges the current vendor hired to produce the paper to print the tickets. Director Sternburg said that hopefully within the next year and a half we will be operating on a new system that will use thermal paper. We therefore wouldn't use the entire three year contract or total dollar amount.

Director Sternburg introduced Jacqueline Kassis, Procurement Supervisor, who explained that there were two bidders who had to perform a test on the performance of eight of their cartridges. Computer Supply of Virginia had 2 of their 8 cartridges fail and GTECH had all 8 pass. GTECH is also holding the price for a year.

Treasurer Grossman asked for a motion to authorize the Executive Director to enter into a three-year contract for terminal ribbon printer cartridges with GTECH. Motion was made by Commissioner Heffernan and seconded by Counselor Boland. Motion approved 5-0

- 5.4 For the reasons set forth in the attached memorandum dated June 21, 2012, the Executive Director is authorized to enter into a contract extension for one year for the purchase of the license for software and graphics with the following company:

Tournament One
700 Canal Street
Boston, MA

The maximum obligation under the contract with Tournament One shall not exceed one hundred and seventy-one thousand dollars (\$171,000.00).

This is for our second monitor game, The Daily Race Game. It is pro-rated so that if we replace the Race Game with another game before the end of the contract, we will receive a refund.

Treasurer Grossman asked for a motion to authorize the Executive Director to enter into a contract extension for one year for the purchase of the license for software and graphics with Tournament One. Motion was made by Commissioner Heffernan and seconded by Commissioner McMahon. Motion approved 5-0 at 11:07 a.m.

- 5.5 For the reasons set forth in the attached memorandum dated June 22, 2012, the Executive Director is authorized to enter into a three-year contract for Bet Slips with the following firms:

DBS
144 Hilldale Avenue
Haverhill, MA 01831
1-800-367-6748

RMF Printing Technologies, INC.
50 Pearl Street
Lancaster, NY 14086
1-800-828-7999

This original award was made pursuant to competitive bid LOT #1213. The selected vendors were the two of three companies to file responses.

The total maximum obligation assumed under this contract shall not exceed one million, five hundred-eight thousand, eight hundred and forty-eight dollars (\$1,508,848.00) for the three-year term.

Counselor Egan explained that these are the current two vendors that the Lottery uses. RMF Printing was the Lottery's sole printer for bet slips in 2007, but currently prints MegaMillions slips. DBS has printed Powerball exclusively since 2010. The rest of the games get split up between the 2 companies. For the last two years DBS has been taking on more business. They are a Massachusetts company who has been more responsive and quickly deliver to the Lottery. Before the last two years, RMF received a majority of the business.

Treasurer Grossman asked what percentage of printing goes to each company to which Counselor Egan told him that DBS does about two-thirds while RMF does about a third. Counselor Egan also said that the Lottery will be using RMF less and shifting more work to DBS. Treasurer Grossman agreed that a more responsive and cheaper printing company would make more sense but what about having DBS do all the printing for the Lottery. Counselor Egan explained to the Treasurer that he spoke with the Warehouse Manager, Paul Murphy, and he said that we should definitely keep the MegaMillion slips with RMF. Treasurer Grossman said that it is good to have a backup company, but how much business do we have to guarantee them? He also said that there is an overcapacity in the printing area and that he feels RMF would come around if we renegotiate with them. Director Sternburg asked Counselor Egan to have the PMT contact RMF and see if they will match DBS pricing. Counselor Egan explained that Jackie Kassis, Procurement Supervisor, has been working on this already.

Treasurer Grossman asked for a motion to authorize the Executive Director to enter into a three (3) year contract for Bet Slips with DBS and RMF Printing not to exceed one million, five hundred-eight thousand, eight hundred and forty-eight dollars (\$1,508,848.00) for the three-year term. Motion was made by Commissioner Boland and seconded by Commissioner Mary Beth Heffernan. Motion approved 5-0 at 11:16.

Treasurer Grossman then asked about vehicles to be purchased in this fiscal year but Director Sternburg noted that the cars could not be made available before the close of the fiscal year. The Treasurer also explained that the Instant Ticket Bid might need more money. Ms. Bresnahan said that she would set aside reserves.

Next Treasurer Grossman addressed the attendees and said, "I can't imagine working with a more collegial and collaborative group. In government, there are too many silos; a "don't mess with my business" attitude. Both the Lottery and Treasury assert excellence

and professionalism. The next Commission meeting will be on July 24th at 10:30 in Braintree Headquarters. Following the meeting there will be a 40th Anniversary Celebration and he feels that the Commissioners should plan on joining the unprecedented event to give the maximum amount of respect to Paul Sternburg and the members of the Lottery.

Treasurer Grossman thanked everyone for attending today's Commission meeting. The meeting was adjourned at 11:20 a.m. with a motion made by Commissioner Heffernan and seconded by Commissioner Benison. Motion approved 5-0.