

Massachusetts State Lottery Commission

60 Columbian Street
Braintree, Massachusetts 02184-1738

Tel: 781-849-5555
Fax: 781-849-5547
TTY: 781-849-5678

STEVEN GROSSMAN
Treasurer and Receiver General

PAUL STERNBURG
Executive Director

DATE: May 29, 2012

TIME: 10:25 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
Jane Gabriel, Acting General Counsel; designee for 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
Elizabeth Day, Assistant General Counsel, Lottery
Steve Quinn, Assistant Director of Sales, Lottery
Paul Mandeville, Assistant Executive Director of MIS, Lottery
Al Gordon, Deputy Treasurer of Policy
Jamey Tesler, General Counsel, Treasury

Robert Frasca

1.0 Opening of the Meeting

Treasurer Grossman opened the meeting at 10:28 a.m.

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2.0 Acceptance of the Minutes of the Meeting of April 2, 2012

Treasurer Grossman asked the Commission to accept the minutes of the April 30, 2012 meeting. Commissioner Boland made a motion to accept the minutes from the April 30, 2012 meeting and Counselor Benison seconded the motion. The minutes were unanimously approved 5-0 at 10:29 a.m.

3.0 EXECUTIVE DIRECTOR REPORT

Director Sternburg began his report by Introducing Steve Quinn, Sales Director and Beth Day, Assistant Legal Counsel. Lottery sales continue to rise with sales for April 2012 \$30 million higher than April 2011. Strong sales along with a 1.1% drop in the overall prize payout has increased net profits for the year by \$92.5 million over the same period in FY12; an increase of \$10.8 million over last month.

Instant tickets were the top sales performers for April at an increase of \$26 million. Powerball was up \$1 million; Mass Cash was up \$2 million and Lucky for Life brought in \$4 million in new sales.

Cash WinFall was down \$2 million compared to last year because that game ended on January 23, 2012, hence there were no sales. The Numbers Game had a \$1 million decrease due to cannibalization from Mass Cash expanding to seven (7) days a week.

40th Anniversary Retailer Recognition and Promotional Events

Lottery staff will be visiting the 95 retailers in Massachusetts who have been agents of the Lottery since its inception in 1972 and holding promotional events at the store locations. The store owners of the 95 original agents will be presented with a plaque. The events at each of the stores will include "Lucky Wheel Spins." Everyone over the age of 18 who purchases \$5 in any Lottery game gets a chance to spin the wheel and is guaranteed a prize. These events will continue throughout the summer. A schedule can be found on masslottery.com as well as Facebook, who now has over 6,000 members.

Director Sternburg highlighted the upcoming instant ticket releases scheduled for June 12, 2012. They include: 7-11-21, a \$1 ticket with a top prize of \$10,000; \$50,000 Grant, a \$2 ticket with a top prize of \$50,000; Red, White and Blue 7's, a \$2 ticket with a top prize of \$30,000 and Double Platinum, a \$5 ticket with a top prize of \$1 million.

April instant ticket sales for 34 days were: \$3.3 million in Solid Gold, a \$1 ticket; \$9.73 million in Cash Up, a \$2 game; \$21.3 million in Massachusetts Lottery Gold, a \$5 ticket and \$46.6 million in 40th Anniversary Millions, a \$20 ticket.

Director Sternburg reviewed the "For Life" ticket suite sales for the four games that were released on February 21st which totaled \$182 million. Director Sternburg explained that the ticket has indexed at 184, which is very high, as the base for a strong game hovers around 100. Treasurer Grossman asked how many winners there have been since the game launched in each price point. Director Sternburg said that the \$500 a Week for Life (\$1) has had 4 – 5 winners; \$1,000 a Week for Life (\$2) has had 6 winners; \$2,500 a Week for Life (\$5) has had 2 – 3 winners and \$5,000 a Week for Life

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had 2 winners. Interestingly, most winners are taking the “lump sum” option. Ms. Bresnahan added that there is a photo gallery of winners on our website and also on Facebook.

Director Sternburg also reviewed the survey conducted by Social Sphere that attendees were given at April’s Commission meeting. Of the 1,000 people interviewed, awareness of the \$10 Million Raffle was 29%, and of that 29% about 1/3 or 9% purchased a ticket or multiple tickets. The low trial or purchase rate is the direct result of a lack of a sufficient advertising budget. Treasurer Grossman asked about advertising for FY13 and Director Sternburg explained that there would be an RFR going out very soon. Treasurer Grossman asked when an award would be made, and Ms. Bresnahan stated that it should be mid-to-late August. Director Sternburg announced that he may do another raffle in October; possibly with a lower price point of \$10. Information on the impact of the advertising campaign for Lucky for Life game which was included in a baseline survey also performed by Social Sphere revealed that 48% of Massachusetts residents were aware of Lucky for Life and almost 1 in 5 residents have played the game since its launch on March 11th.

4.0 LOTTERY REFORM SCORECARD

Human Resources Director Sternburg indicated that Human Resources will host two-day interactive management training in June for senior management to improve supervisory, communication and other relevant skills. Also, separate training for managers, supervisors, sales representatives and customer service personnel focusing on improving skills and providing the opportunity for further professional development. Director Sternburg explained there is always room for improvement.

Operations Director Sternburg also explained that training is underway for holders of wireless devices. Training will be for holders of wireless devices. Training for managers will focus on proper insight and billing of these devices. Director Sternburg stated that the devices are for Lottery use only unless of course there is an emergency. In response to Counselor Gabriel asking if personnel must carry their devices with them at all times, Director Sternburg said that it varies from department to department but they are carried during business hours. Ms. Judd-Stein explained that managers would have separate training to go over billing procedures. Counselor Tesler asked about policy regarding driving and texting. The policy reflects the law that prohibits texting while driving. Director Sternburg mentioned Chief of Staff Kathryn Burton had contacted him about sending a vendor to the Lottery who will present a program where the device shuts down when there is motion. Counselor Tesler liked that concept.

Governance Director Sternburg reports that the Lottery website’s new section on “Commission meetings and materials” is prepared to go live. The Commissioners were supplied with the website address. Counselor Gabriel asked about the link on the website for FAQs regarding the filing of an ADA complaint. Counselor Day informed the Commission that the link is on the main page of the website and the Lottery works with two AAG’s and they do not turn away anyone with a complaint. If a grievance is requested, the form and procedural directions are available on the masslottery.com website, and any grievance is forwarded to the Lottery’s ADA coordinator.

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5.0 Votes presented to the Commission (10:52)

- 5.1 For the reasons set forth in the attached memorandum dated May 21, 2012, the Executive Director is hereby authorized to enter into a successor collective bargaining agreement between the Massachusetts State Lottery and SEIU, Local 888, for the period of July 1, 2012 – June 30, 2014.

Commissioner Boland asked Counselor Egan what are some of the lessons learned from this experience. Counselor Egan said that the situation was fairly unusual, but in impact bargaining in the future, management will be very careful in offering any additional proposals that could slow down the process. Counselor Day added that the issue of the tax incentive and salary increase proposal would never be offered again by the Office of Employer Relations.

The tentative agreement includes a \$5,000 bonus for employees retiring before December 31, 2012. There are 5 or 6 employees that will retire and only 1 or 2 of those jobs will be filled. There will be no other backfill of positions according to Director Sternburg. The stewards that were in favor of the last negotiation were not re-elected in the last election. Director Sternburg and Counselor Egan will be meeting with the Union president to open the lines of communication.

Treasurer Grossman asked for a motion to authorize the Executive Director to enter into a successor collective bargaining agreement between the Massachusetts State Lottery and SEIU, Local 888, for the period of July 1, 2012 – June 30, 2014.

Motion was made by Acting Counselor Gabriel and seconded by Counselor Benison. Motion approved 5-0 at 10:56 a.m.

- 5.2 For the reasons set forth in the attached memorandum dated May 11, 2012, the Executive Director is hereby authorized to enter into a one-year contract extension 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 one hundred thirty-nine thousand, two hundred and fifteen dollars (\$139,215.00) making the total maximum obligation under the contract not to exceed four hundred ninety-eight thousand, three hundred and fifteen dollars (\$498,315.00).

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Counselor Egan explained that this would be an extension of the current contract. The Lottery is currently in the fourth year of its contract and the Lottery has an option for a fifth year. There were also additional charges for multi-state games. The Finance Department had concerns about re-bidding the service. The concerns included: audit costs increasing and that MSLC would need to train a new company that had no familiarity of the business of the MSLC, which KPMG has. It was decided that it was in the best interest to extend the contract and make a determination in the coming year whether to re-bid next year. Director Sternburg explained that there are currently five (5) procurements going out and that we have one hundred twenty-five (125) contracts to get into place by July 1st. Commissioner Benison said this would be a good opportunity to get the Audit Subcommittee started.

Treasurer Grossman asked for a motion to authorize the Executive Director to enter into a one-year contract extension for Auditing Services with KPMG, LLP. Motion was made by Commissioner Benison and seconded by Acting Counselor Gabriel. Commissioner Boland abstained from voting. Motion approved 4-0-1 at 11:02 a.m.

- 5.3** For the reasons set forth in the attached memorandum dated May 22, 2012, the Executive Director is hereby authorized to enter into a contract for the purpose of securing consultant services for a new on-line gaming system with the following vendor:

Camelot Global Services (North America), Inc.
980 9th Street - 16th floor
Sacramento, CA 95814

This award is made pursuant to competitive bid process (RFR LOT #1204), in which this company submitted a proposal that received the highest score.

The maximum obligation under the contract with Camelot Global shall not exceed five hundred-eighty thousand dollars (\$580,000.), for a period not to exceed three (3) years.

Director Sternburg explained that this is the most important purchase the Lottery will make. The current system is fourteen (14) years old and though it is still doing well it is very old for a computer system. The current system would not be able to conduct sales over the internet. There may be multiple procurements requests and Camelot will assist in developing each request and evaluating them as well. IDT budgeted \$400,000 for this service but may need to ask for another \$180,000. Treasurer Grossman said that this can be financed in many ways.

Treasurer Grossman asked what the length of time would be on a future bid for a new online system. Director Sternburg said the bid responses would be back in 6 months from the date of issuance of the request for responses. After the Lottery reviews all the technology options, it would take 6 to 8 months to evaluate Camelot's recommendations. Camelot's original cost estimate for the service was \$1.7 million, but the Lottery's IT Department decided it would perform certain tasks and the maximum obligation dropped to \$580,000. Gaming Laboratories, Inc, a fairly new company to the market, was another

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potential bidder. They are just branching out and made assumptions that were not favorable to the Lottery. Their proposal was not accepted. Commissioner Boland asked if Camelot would be able to fulfill their obligation for such a significant decrease in price. Director Sternburg said that Camelot would be exclusively assigned to the Lottery.

Treasurer Grossman asked for a motion to authorize the Executive Director to enter into a contract for the purpose of securing consultant services for a new on-line gaming system with Camelot Global Services (North America), Inc. Motion was made by Commissioner Benison and seconded by Counselor Boland. Motion approved 5-0 at 11:09 a.m.

- 5.4** For the reasons set forth in the attached memorandum dated May 22, 2012, the Executive Director is authorized to enter into a three-year contract for statewide delivery services with the following firm:

United Parcel Service
35 Glenlake Parkway, Suite 200
Atlanta, GA 30328

This original award was made pursuant to competitive bid LOT #1210. The selected vendor was the only responding bid.

The total maximum obligation under this contract shall not exceed eight million, four hundred seventy-nine thousand and forty-six dollars (\$8,479,046).

Treasurer Grossman asked about the increase from 2011 to 2012. Director Sternburg explained that this year, with the increase in sales, we shipped six-hundred and eleven thousand (611,000) pounds more this year. Ribbons are now being shipped because they were drying out in the Sales Reps cars.

Treasurer Grossman asked for a motion to authorize the Executive Director to enter into a three-year contract for statewide delivery services with United Parcel Service. Motion was made by Commissioner Benison and seconded by Acting Counselor Gabriel, designee for Mary Beth Heffernan. Motion approved 5-0 at 11:14 a.m.

- 5.5** 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 legal costs for the representation of former Treasurer Cahill and former Executive Director Mark 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 legal costs total thirty-seven thousand, three hundred and thirty-seven dollars and forty-five cents (\$37,337.45). The Lottery is hereby instructed to seek reimbursement as deemed appropriate from the designated fund for legal costs managed by the Comptroller's office.

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Counselor Egan explained that this was tabled last month and that Counselor Jennifer Hedderman, designee for Commissioner Benison, Comptroller's office, asked for clarification on charges. Counselor Egan has since had 3 to 4 conversations with Attorney Demeo and Attorney Delaney regarding the breakdown of charges and Counselor Egan is satisfied the billing is accurate. Counselor Egan will make a payment request to the Comptroller's office and seeks further documentation from the law firm.

Treasurer Grossman asked for an amended motion to authorize the Executive Director to seek payment of the legal costs for the representation of former Treasurer Cahill and former Executive Director Mark Cavanagh in the Bingo Innovative Software LLC v. Timothy P Cahill et. al. civil action in Suffolk Superior Court to Demeo & Associates, LLC from the appropriate fund at the Comptroller's office.

Commissioner Benison abstained from this vote. Amended motion was made by Commissioner Boland and seconded by Acting Counselor Gabriel, designee for Mary Beth Heffernan. Amended motion approved 4-0-1.

Treasurer Grossman had a quick update for the Commission and explained that the prize payout was a full 1% less than anticipated. The prize payout is always budgeted at 72.3% and it is currently at 71.3%. Sales over the last few weeks raised the budgeted profit amount to \$947 million, which is a conservative figure. With five (5) weeks until the end of the fiscal year, according to information the Treasurer obtained from Dave Sweeney, Lottery CFO, the best guesstimate for the ending year figure could be from \$951 million to as much as \$973 million. As you recall, the budgeted amount started at \$894 million which was increased to \$920 million and then raised again to an estimated \$927 for FY13. The increase can be attributed to the high sales due to the \$656 million Mega Millions jackpot in March, an exceptional winter with no snow, and better designed and more eye-catching tickets. When determining the prize payout, the Lottery uses the historical figure of 72.3%.

Treasurer Grossman thanked everyone for attending today's Commission meeting. The meeting was adjourned at 11:22 a.m. with a motion made by Commissioner Benison and seconded by Commissioner Boland. Motion approved 5-0.