

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 28, 2013

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
Elisabeth Ryan, Assistant General Counsel,
Designee of Andrea Cabral, 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 to the Director, Lottery
David Sweeney, Chief Financial Officer, Lottery
Cathy Judd-Stein, Assistant Executive Director of Policy
and Special Counsel, Lottery
Paul Mandeville, Assistant Executive Director of MIS, Lottery
Owen Doherty, On-line Product Manager, Lottery
Jamey Tesler, General Counsel, Treasury
Al Gordon, Deputy Treasurer for Policy, Treasury
James MacDonald, First Deputy Treasurer, Treasury
Jon Carlisle, Director of Communications, Treasury

Robert Frasca

1.0 Opening of the Meeting

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

2.0 Acceptance of the Minutes of the Meeting of April 23, 2013

Treasurer Grossman asked the Commission to accept the minutes of April 23, 2013. Commissioner Benison made a motion to accept the minutes of the meeting and Commissioner Boland seconded the motion. The minutes were unanimously approved 5-0 at 10:05 a.m.

3.0 EXECUTIVE DIRECTOR REPORT

Director Sternburg presented the Executive Director's report for April (Please reference the handout).

Director Sternburg gave an update on Lottery sales noting that the sales for the month of April increased \$9 million as compared to April 2012 due to an uptick in Instant Ticket sales. The prize payout for April 2013 was 75.8% as compared to 75.2% in April 2012. This 0.6% increase in payout caused the Lottery's overall net profit to drop \$61.9 million behind last year's record-setting pace.

Director Sternburg announced that the Cadillac Riches Bonus Drawing event will take place on June 1st at R.C. Olsen Cadillac dealership in Woburn. Ten Lottery players were selected via a Second Chance Drawing and will have the chance to win a 2012 Cadillac CTS Premium Coupe and \$500. Six week sales for the Cadillac Riches ticket were \$22,885,090. Treasurer Grossman inquired as to how the event location was selected. Beth Bresnahan explained that the dealership association worked with the game vendor to select the site and that the Lottery did not participate in those discussions.

Director Sternburg reviewed the sales for each of the Lottery games and revenue results comparing April 2012 to April 2013, as well as year-to-date FY13 vs. FY12.

Director Sternburg then introduced details on the soon to be released second monitor game "Jackpot Poker" which will replace the underperforming Daily Race Game. He explained the game mechanics and played a demo video of the game. The Daily Race Game will officially end at the close of business on June 11th and Jackpot Poker sales will begin on June 17th.

4.0 LOTTERY REFORM SCORECARD

Governance: The Lottery has reviewed and revised its Mission Statement to reflect values most recently set forth in the MSLC Manual for Sales Agents and it will be posted on the website.

At the beginning of the calendar year, the Lottery finalized its review and consideration of issues raised by the Inspector General's Report dated July 27, 2012 (see handout).

Operations: Director Sternburg executed the Compliance Departments Policy and Procedures addressing Customer Complaints.

Director Sternburg and members of his staff met with two Commissioners of the Massachusetts Gaming Commission recently to discuss the impact of expanded gaming on the Lottery. The Gaming Commission encourages the Lottery to meet with all eleven gaming establishment applicants to discuss mitigation and the Lottery's licensing requirements. Director Sternburg said this will give us more leverage in our licensing

agreement. Casinos are measured by the impact to the Lottery and will be awarded points by the Commission.

5.0 Votes presented to the Commission

- 5.1 Pursuant to the provisions of Massachusetts General Laws, Chapter 30A, Section 3; and Chapter 10, Section 24, the Commission finds it in the public interest to adopt the attached interim regulations for the game Jackpot Poker and include the same in the official Rules and Regulations of the Massachusetts State Lottery Commission.

Treasurer Grossman asked for a motion to adopt the interim regulations for Jackpot Poker and include them in the official Rules and Regulations of the Massachusetts State Lottery Commission. Motion was made by Commissioner McMahon and seconded by Commissioner Benison at 10:52 a.m. Motion approved 5-0.

- 5.2 That the Commission hereby ratifies and adopts the decision of Erin C. Nally, Esq. (hearing officer sitting by designation) in the matter of the appeal of:

In the matter of Khurshal Gogri, d/b/a Newstand

Counselor Egan explained that this is the second level of appeal where a hearing officer is selected who sits as a designee of the Commission. The hearing officer, once the hearing is complete, issues a recommended decision to the full Commission who can accept, reject or amend the recommendation. The license application was denied because there is another Lottery location 100 feet away. Director Sternburg recommends accepting the decision. Director Sternburg noted that it is not fair to the existing agents, who invested in the Lottery, to place another agent too close.

Treasurer Grossman asked for a motion to ratify and adopt the decision of Erin C. Nally, Esq. in the matter of the appeal of Khurshal Gorgo d/b/a Newstand. Motion was made by Commissioner Boland and seconded by Commissioner Benison at 10:55 a.m. Motion approved 5-0.

- 5.3 For the reasons set forth in the attached memorandum dated May 23, 2013, the Executive Director is hereby authorized to enter into a three-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 highest scoring proposal of the three proposals submitted.

The maximum obligation assumed hereunder shall not exceed four hundred-one thousand, seven hundred and thirty-five dollars (\$401,735.00).

Counselor Egan explained that KPMG scored the highest of three bidders and was determined to be the highest qualified.

Treasurer Grossman asked for a motion to authorize the Executive Director to enter into a three-year contract for Auditing services with KPMG LLP.

Commissioner Boland abstained from the vote as another auditing firm is a client of her firm. Motion was made by Commissioner Benison and seconded by Commissioner McMahon at 10:59 a.m. Motion approved 4-0-1.

- 5.4 For the reasons set forth in the attached memorandum dated May 23, 2013, the Executive Director is authorized to set the maximum obligation for year two (2) of the three-year contract for the provision of Advertising Services in accordance with the attached memorandum with the following company:

**Connelly Partners
Boston, MA**

This award is made pursuant to a competitive bid process (RFR LOT #1216), in which five firms submitted the proposals and Connelly Partners received the highest score.

The maximum obligation for the second year of the contract with Connelly Partners shall not exceed five million dollars (\$5,000,000.00). The Commission will approve the maximum obligation for year three of the contract on an annual basis based on the fiscal year appropriation.

Treasurer Grossman asked for a motion to authorize the Executive Director to set the maximum obligation for year two of the three-year contract for the provision of Advertising Services in accordance with the attached memorandum with Connelly Partners. Motion was made by Commissioner Boland and seconded by Commissioner McMahon at 11:14 a.m. Motion approved 5-0.

- 5.5 To ensure that the Massachusetts State Lottery Commission's By-Laws accurately reflect historic administrative practice and the designation of KENO licensing responsibilities to the Executive Director pursuant to Massachusetts General Laws, Chapter 10, Section 27a, Article III, Section 5 of the By-Laws is hereby amended to add the following sentence before the last sentence of that section: "*The Chair and the Commission hereby designate and authorize the Executive Director to grant, revoke and/or suspend KENO licenses and take any and all actions necessary to manage, operate and oversee the game known as KENO in accordance with M.G.L. c. 10, §27A,*" so that the Article III, Section 5 will now read as follows:

Article III, Section 5. Delegation of Authority

In connection with the operational and administrative control of the affairs of the Lottery, the Commission shall delegate to the Executive Director certain of its statutory powers, functions and responsibilities in order to create the necessary efficiencies for the Lottery to fulfill its founding mission and vision. Except as otherwise specifically authorized by resolution of the Commission, the Executive Director is authorized to take any and all actions necessary to manage, operate and oversee the Lottery, provided that such actions comply with the Enabling Act and all other applicable laws. In particular, the Executive Director is hereby authorized to enter into contracts for the operation of the Lottery on behalf of the Commission, without specific approval of the Commission, provided that such contracts do not exceed a maximum liability set by resolution of the of the Commission from time to time and that any such resolution is posted on the Lottery's website and is available to the public. To the extent

permissible under such resolution, the Executive Director is further authorized to employ such personnel as may be necessary. The Chair and the Commission hereby designate and authorize the Executive Director to grant, revoke and/or suspend KENO licenses and take any and all actions necessary to manage, operate and oversee the game known as KENO in accordance with Massachusetts General Laws, c. 10, §27a. The Commission also hereby authorizes the Executive Director to make such reports to the Governor, Attorney General and the General Court and conduct such studies as required of the Commission under the Enabling Act.

Treasurer Grossman asked for a motion to designate and authorize the Executive Director to grant, revoke and/or suspend KENO licenses and take any and all actions necessary to manage, operate and oversee the game known as KENO in accordance with Massachusetts General Laws, Chapter 10, Section 27a. Motion was made by Commissioner Benison and seconded by Commissioner Boland at 11:16 a.m. Motion approved 5-0.

- 5.6 For the reasons set forth in the attached memorandum dated May 24, 2013, the Executive Director is hereby authorized to enter into a three-year contract for Double Jackpot Window LED signs with the following company:

Pro-Lite, Inc.
Costa Mesa, CA

The original award was made pursuant to a competitive bid process in which Pro-Lite, Inc. submitted the highest scoring proposal of the three proposals submitted.

The maximum obligation assumed in the first year of the contract shall not exceed one million, four hundred thousand (\$1,400,000.00). The maximum obligation for years (2) and three (3) of the contract will be set based on legislative appropriation.

Mr. Owen Doherty presented a sample sign for the Commissioners viewing. These signs will have the ability to connect to the main frame of the new computer system.

Treasurer Grossman excused himself from the meeting. First Deputy Treasurer James MacDonald stepped in to chair the meeting in his absence.

Mr. Doherty explained that the face plates can be changed on these lighted signs anytime. He also stated that the return on investment, i.e. increased sales, is that the signs quickly pay for themselves. There were three vendors that responded, but they were the only vendor to be able to manufacture 2,500 by June 30th and their cost was \$332 per sign, whereas the other vendors average cost was \$500.

First Deputy Treasurer MacDonald asked for a motion to authorize the Executive Director to enter into a three-year contract for Double Jackpot Window LED signs with Pro-Lite, Inc. Motion was made by Commissioner Boland and seconded by Commissioner McMahon at 11:19 a.m. Motion approved 5-0.

Treasurer Grossman returned to the meeting at 11:24 a.m. and asked for a motion to convene in executive session to allow the Commission to discuss the litigation position of the Commission, because an open meeting may have a detrimental effect on the future litigation position of the Commission. This exception to the open meeting law is found in Massachusetts General Laws, c. 30A, §21(a)(3).

The motion was made by Commissioner Benison and seconded by Commissioner Boland at 11:24 a.m. A roll call vote was taken: Commissioner Benison: yes; Commissioner Boland: yes; Commissioner McMahon: yes; Counselor Elisabeth Ryan, designee for Commissioner Cabral: yes; and Treasurer Grossman: yes. Motion approved 5-0.

The Commission reconvened at 11:38 a.m. with a motion to adjourn being made by Commissioner Benison and seconded by Commissioner Boland. A roll call vote was taken: Commissioner Benison, yes; Commissioner Boland: yes; Commissioner McMahon: yes; Counselor Elisabeth Ryan, designee for Commissioner Cabral: yes; and Treasurer Grossman: yes. Motion approved 5-0.

DOCUMENTS LIST (Distributed to or referred to at meeting)

1. Booklet entitled: "Massachusetts State Lottery Commission May 2013 Commission meeting"
2. Booklet entitled: "Massachusetts State Lottery Commission Executive Director's Report Delivered by Paul R. Sternburg May 28, 2013"
3. Video demonstration of Jackpot Poker
4. Double Jackpot Window LED signs
5. Jackpot Poker POS
6. Memorandum dated January 23, 2013: Compliance Review