

Massachusetts State Lottery Commission

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DATE: February 25, 2014

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
Beth Boland, Commissioner
Tim McMahon, Commissioner
Martin Benison, Commissioner
Laura Weierman, Assistant General Counsel and designee for
Andrea Cabral, Commissioner

ALSO PRESENT: Beth Bresnahan, Executive Director, Lottery
William Egan, General Counsel, Lottery
David Sweeney, Chief Financial Officer, Lottery
Matt DiFrancesco, Assistant Executive Director of Operations
Cathy Judd-Stein, General Counsel, Treasury
James MacDonald, First Deputy Treasurer
Al Gordon, Assistant Treasurer, Director of Policy
Jon Carlisle, Director of Communication, Treasury
Michelle Mitchell, Connolly Partners
Ashley McGilloway, Connolly Partners

1.0 Opening of the Meeting

Treasurer Grossman opened the meeting at 10:01 a.m.

2.0 Acceptance of the Minutes of the Meeting of January 28, 2014

Treasurer Grossman asked the Commission to accept the minutes of the meeting from January 28, 2014. Commissioner Boland made a motion to accept the minutes of the meeting as amended, correcting the attendance at the meeting and Commissioner McMahon seconded the motion. The minutes were approved 5-0 at 10:04 a.m.

3.0 EXECUTIVE DIRECTOR REPORT

Treasurer Grossman welcomed Executive Director Beth Bresnahan as the new Executive Director. Executive Director Bresnahan thanked the Treasurer for the kind words and said she looked forward to continuing working with the strong team at the Lottery.

Executive Director Bresnahan then delivered the Executive Director's Report (please reference the handout to provide the detailed sales data discussed).

Executive Director Bresnahan gave an update on Lottery sales noting that overall sales for January 2014 were down \$8 million as compared to January 2013. This decrease can be attributed to the inclement weather.

She proceeded to discuss the increase in the prize payout for the month compared to the previous year (see handout for details). Executive Director Bresnahan commented that the prize payout trend is different from last year and previous years. Normally, the prize payout for December decreases where less prize winners claim their prize at the end of the tax year. The Lottery generally sees an increase in January. This year the Lottery saw increases in both months (see handout).

Executive Director Bresnahan discussed the overall prize payout for the year being lower than the budgeted amount and from the previous year. Accordingly, she informed the Commission that the Lottery's net profit is \$34 million ahead of last year despite lagging sales. Treasurer Grossman commented that overall the Lottery was experiencing solid numbers and it looked as if the Lottery would at least meet and possibly exceed the revised profit figure of \$957 million for the fiscal year.

Executive Director Bresnahan informed the Commissioners of new promotions and price points the Lottery was planning for the spring. She discussed that the Lottery would be releasing its highest price point in the instant game in April with a \$30 ticket. Executive Director Bresnahan reviewed the past price points for instant tickets and how this was a natural development for the Lottery at this stage. Commissioner Boland asked a question regarding price points for the instant game in other states. Executive Director Bresnahan informed her that this ticket would not be the first in the country at this point. She provided examples of other states that had a \$30 ticket, including Connecticut, and in one case a state lottery had an instant ticket as high as \$50. Commissioner McMahan asked whether the Massachusetts Council for Compulsive Gambling had been consulted about the new price point. Executive Director Bresnahan informed him that she had met with them the previous week to discuss the \$30 ticket. The Council had concerns, but realized the Lottery needed to take this step forward and was confident that the release would be done responsibly. She further stated that she knows the Lottery needs to keep the Council informed.

Executive Director Bresnahan then reviewed the new Red Sox instant ticket release and the deployment of new Player Activated Terminals.

Executive Director Bresnahan reviewed the January and February Instant Ticket releases and POS materials. The January instant tickets have been selling great since their launch 3 weeks ago. Executive Director Bresnahan continued with a review of the Lottery games and revenue results comparing December FY14 to December FY13 and also year-to-date FY14 vs. FY13.

4.0 Votes presented to the Commission

- 4.1 The Executive Director is authorized to enter into an amendment to the contract to increase the maximum obligation to allow for the purchase of Self Service Player Activated Terminals and related parts and services with the following company:

GTECH Corporation
55 Technology Way
West Greenwich, Rhode Island

This award is made pursuant to a competitive bid process (RFR Lot #1113), in which the three firms submitted compliant responses.

The amended maximum obligation would increase three million seventy-two thousand nine hundred seventy-five dollars (\$3,072,975.00) to eight million eight hundred fifty-four thousand three hundred ninety-six dollars (\$8,854,396).

Commissioner Boland recused herself from this vote as it may conflict with one of her firm's clients. Counselor Egan introduced the vote and went over the introductory points in the supporting memorandum.

David Sweeney went over the points he discussed in the supporting memorandum including the average number of days each PAT would take to pay the original costs, 69 days at \$1017 per day, and the history of the pricing and options from the original RFR. He discussed the base price of \$14,100 and the optional items of bet slip holders and ESMM screens. He also stated that the ADA retrofits of machine to comply with the new ADA regulations.

Mr. Sweeney concluded that adding all of these options into the base price bought in a maximum cost per machine at \$15,417. Both Mr. Sweeney and Counselor Egan stated that the Lottery is seeking this amount in the vote as a maximum obligation and the Lottery intended to negotiate the price lower with the desired options. Treasurer Grossman asked that the Lottery report back on the success of those negotiations.

Commissioner McMahon made a motion to increase the maximum obligation under this contract by three million seventy-two thousand nine hundred seventy-five dollars (\$3,072,975.00) to eight million eight hundred fifty-four thousand three hundred ninety-six dollars (\$8,854,396). Commissioner Benison seconded the motion. Motion approved 4-0-1.

- 4.2 Authorize the Executive Director to enter into a contract amendment increasing the maximum obligation for postal services and postage with:

Pitney Bowes
Boston, MA

The original purchase was made pursuant to a competitive bid process under statewide contract ADSP011 which qualified the company as an eligible vendor.

The maximum obligation assumed under the contract amendment would increase to three hundred twenty thousand dollars (\$320,000.00).

Executive Director Bresnahan explained the need for increase was largely because of the number of Lottery games that offer season tickets causing an increase in the amount of items sent by mail. She stated the other items that are mailed include winner checks, player communications, and much of the documentation and correspondence that supports many of the business units of the Lottery.

Commissioner Boland asked if the Lottery has considered increasing its use of electronic communication. Executive Director Bresnahan stated that the Lottery does whatever it can electronically and also hand delivers items such as POS materials whenever possible to decrease cost.

Commissioner Benison made a motion to increase the maximum obligation under this contract to three hundred twenty thousand dollars (\$320,000.00). Commissioner McMahon seconded the motion. Motion approved 5-0.

- 4.3 Authorize the Executive Director to enter into a contract amendment increasing the maximum obligation for increased internet bandwidth services with:

**Verizon
Boston, MA**

The original purchase was made pursuant to a competitive bid process under statewide contract ITT46 which qualified the company as an eligible vendor.

The maximum obligation assumed under the contract amendment would increase to two hundred fifty-five thousand dollars (\$255,000.00).

Commissioner Boland recused herself from this vote as it may conflict with one her firm's clients. Counselor Egan introduced Matt DiFrancesco who explained the background for the request.

Mr. DiFrancesco explained that the regional offices require internet connections to allow for their check writing service at its customer service windows to issue prize checks. He explained there had been performance issues with the connectivity. After consulting with Verizon, it appeared there was a bandwidth issue. So at Verizon's suggestion the bandwidth was increased and the performance issues went away. The increase in bandwidth has solved the performance issues.

Commissioner Benison made a motion to increase the maximum obligation under this contract to two hundred fifty-five thousand dollars (\$255,000.00). Commissioner McMahon seconded the motion. Motion approved 4-0-1.

Treasurer Grossman discussed standard operating out of pocket business expenses like postage and internet service and the possibility exploring legislative changes to deal with these costs differently in terms of the state budget. Mr. Sweeney discussed current cost savings the Lottery has benefitted from this fiscal year touching on some of the out of pocket expenses the Treasurer discussed. The Treasurer requested a quarterly presentation on budget savings the Lottery has realized.

Treasurer Grossman then asked the individuals from Connolly Partners to discuss the Lottery's advertising plan and budget. Michelle Mitchell discussed the Lottery's limited budget and how Connolly Partners along with the Lottery did its best to stretch every

dollar. She mentioned digital communications as an example of the advertising dollars that have been stretched.

Treasurer Grossman asked for a motion to adjourn. Motion was made by Commissioner Benison and second by Commissioner Boland. Motion approved 5-0 and meeting adjourned at 10:55 a.m.

DOCUMENTS LIST (Distributed to or referred to at meeting)

1. Booklet entitled: "Massachusetts State Lottery Commission February 2014 Commission Meeting"
2. Booklet entitled: "Massachusetts State Lottery Commission Monthly Sales & Marketing Report Presented on: February 25, 2014"