

*Massachusetts State Lottery Commission
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DATE: June 24, 2014

TIME: 10:00 AM

MEMBERS PRESENT: Steven Grossman, Treasurer and Receiver General
Beth Boland, Commissioner
Tim McMahon, Commissioner
Kathy Sheppard; Deputy Comptroller and
designee for Martin J. Benison, Commissioner
Doug Levine, General Counsel and
designee for Andrea Cabral, Commissioner

ALSO PRESENT: Beth Bresnahan, Executive Director, Lottery
William Egan, General Counsel, Lottery
Al Gordon, Assistant Treasurer, Director of Policy
Jon Carlisle, Director of Communication, Treasury
James McDonald, First Deputy Treasurer
Christian Teja, Communications and Marketing, Lottery
Kami-Lii Ward, Executive Assistant, Lottery

I. Opening of meeting

Treasurer Grossman opened the meeting at 10:05 AM.

II. Approval of Minutes from May 27, 2014

Treasurer Grossman asked the Commission to accept the minutes of the meeting from May 27, 2014. Commissioner Boland made a motion to accept the minutes of the meeting and Commissioner McMahon seconded the motion. The minutes were approved 5-0 at 10:07 AM.

III. Executive Director's Report

- a. Sales update**
- b. Marketing update**

Executive Director Bresnahan introduced the Lottery's new CFO Deirdre Richardson, who will start in the position in August.

Executive Director Bresnahan provided an update on Lottery sales noting that overall sales for May 2014 were up \$7 million as compared to May 2013. The prize payout for May 2014 was 72.17 percent, significantly higher than the 68.75 percent payout of May 2013. She provided an overview of the reason for the increase which was due primarily to last May's sales being driven by a surge in Powerball sales, a 50 percent payout game, as opposed to this May's sales being driven by an increase in Instant Ticket sales that average around 76 percent payout.

Executive Director Bresnahan then shared factors that impacted sales for May of 2014, including (*details from the Executive Director's Report*):

- While last month's fluctuation has caused the year-to-date prize payout to increase to 72.15 percent, it continues to remain below the FY14 budgeted rate of 72.3 percent. Consequently, our net profit is \$16.1 million ahead of last year's pace through the first 11 months of the fiscal year.
- Instant Ticket sales increased by \$33 million last month following the introduction of the \$30 World Class Millions game in late April 2014. KENO also saw an increase in May, with sales ringing in \$2 million ahead of last year's figures.
- Powerball experienced a \$22 million drop in sales due to a significantly lower jackpot offering in May 2014 as compared to the previous May (\$100 million versus \$590.5 million respectively). Other draw games that experienced sales declines for the month were: Mega Millions, which was down \$2 million; Lucky for Life, which was down \$1 million; and, The Daily Race Game, which was down \$3 million because the game has not generated any sales since its official end in June 2013.

Executive Director Bresnahan provided an update on sales for the June instant tickets that debuted in stores on June 17, 2014. She continued the discussion by informing the Commission about the digital advertising running online to promote the four June games.

IV. Matters Requiring Massachusetts State Lottery Commission Approval

4.1 Authorize Executive Director to enter into a contract and make payment to vendors providing standard services to the Lottery's regional offices and headquarters and for fuel charges for Lottery issued vehicles including but not limited to electrical service, wireless circuit support and connectivity charges for PAT's to the Braintree headquarters.

Counselor Egan introduced the vote and explained a similar vote was taken last year. He explained the memo attached to the vote discusses several areas pertaining to the overall cost of doing business. Counselor Egan suggested separating Vote (1) into three separate votes. Commissioner Boland recused herself from the second and third sections of Vote (1) due to potential conflict with her firm's clients. Counselor Egan explained the votes as follows:

Electrical/Gasoline: Electrical and gasoline expenses for the Lottery's state vehicles is estimated at \$450,000.00. This cost is for electrical services provided by NSTAR, National Grid and BELD and represents an increase of \$10,000.00 over the previous fiscal year. The electrical expense is for the headquarters here in Braintree as well as the Regional Offices, and offsite locations in Norwell and Canton. The gasoline expenses are level funded from the current fiscal year. Motion was made by Commissioner McMahan and seconded by Commissioner Boland. Motion approved 5-0.

Postage: Postage expense with Pitney Bowes is estimated at \$320,000.00. The postage meter expense covers all general mailing including Season Tickets, winner's checks and Charitable Gaming. The figure is level funded from the current fiscal year. Motion was made by Commissioner McMahan and seconded by Deputy Sheppard. Motion approved 4-0-1.

Verizon: Verizon will provide three services next fiscal year: 1.) wireless communication and devices for player activated terminals estimated at \$172,000.00; 2.) wireless circuit communication between the Braintree office and its backup processing locations estimated at \$175,000.00; and 3.) wireless and internet communications between the Braintree office and the regional offices which is estimated at \$295,000.00. Counselor Egan explain the projected increases to two of the Verizon services that increased \$22,000.00 and \$40,000.00 respectively. Motion was made by Doug Levine and seconded by Deputy Sheppard. Motion approved 4-0-1.

4.2 Authorize the Executive Director to enter into a contract amendment for Fiscal Year 2014 for the installation, purchase and repair of television monitors with Valley Communications Systems, Inc. of Chicopee, MA.

Counselor Egan discussed the reasons leading to amending the current contract which was previously voted on in March 2014. He detailed the history of this service and how the duties had evolved spreading functions across several departments within the Lottery. He explained this spread of the duties regarding monitors brought to light a need to revisit and restructure the process to create better controls on overall need and cost projections. Executive Director Bresnahan gave a detailed presentation on the costs and services associated with second monitor games and the revenue derived therefrom. She told the Commissioners that the internal auditor is reviewing the contract and processes to get senior management a clearer picture as to why the cost continues to increase.

Commission Boland referred to the previous vote on the monitors and had a question regarding the repair versus replacement of second monitors. Executive Director Bresnahan discussed the issue.

Executive Director Bresnahan stated that the Lottery was looking at dividing the contract into two and having one contract focus on installation and the other on repair and replacement. The Commissioners thought this division would make sense. Executive Director Bresnahan provided handout of costs incurred for each type of service. She stated in response to Commissioner Boland that the Lottery's field technicians need to perform a cost benefit

analysis prior to repairing monitors at agent locations. Executive Director Bresnahan informed the Commission that monitor games account for 16 to 17 percent of the Lottery's gross revenue.

Treasurer Grossman asked for a motion to approve to authorize the Executive Director to enter into an amendment of the contract for fiscal year 2014 increasing the maximum obligation to \$738,656.00 for Fiscal Year 2014. Motion was made by Deputy Kathy Sheppard and seconded by Doug Levine. Motion approved 5-0.

4.3 Authorize Executive Director to enter into a one-year contract for Fiscal Year 2015 for the installation, repair and purchase of television monitors with Valley Communications Systems, Inc. of Chicopee, MA.

Counselor Egan introduced the next vote explaining that this vote is for the same service in the previous vote. He stated the vote seeks a one-year contract but only provides for a maximum obligation that would cover three months of the service to allow time for the internal audit to conclude. At that time the Lottery would return to the Commission with this conclusion and recommendations implemented. He stated that the obligation for three (3) months of service is \$202,750.00. Counselor Egan said this limit will require another vote before the Commission prior to the end of the quarter. Treasurer Grossman asked was there any prohibition from entering into a three-month contract versus one-year contract with the three-month maximum obligation. Counselor Egan responded there was no prohibition. Treasurer Grossman asked for a motion to authorize the Executive Director to enter into a three-month contract for installation, purchase and repair of television monitors with Valley Communications Systems, Inc. Motion was made by Commissioner Boland and seconded by Deputy Sheppard. Motion approved 5-0.

Treasurer Grossman asked for a motion to adjourn. Motion was made by Commissioner McMahon and seconded by Commissioner Boland. Motion approved 5-0 and the meeting adjourned at 10:44 AM.

DOCUMENT LIST (Distributed to or referred to at meeting)

1. Booklet entitled: "Massachusetts State Lottery Commission June 2014 Commission Meeting"
2. Booklet entitled: "Massachusetts State Lottery Commission Executive Director's Report Presented on: June 24, 2014"
3. Handout of costs incurred for each type of service with Valley Communications, Inc.