Massachusetts State Lottery Commission
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DATE: **September 30, 2014**

TIME: **10:00 AM**

MEMBERS PRESENT: **James MacDonald, First Deputy Treasurer as designee for Steven Grossman, Treasurer and Receiver General**
Tim McMahon, Commissioner
Martin 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, Deputy Assistant Treasurer, Director of Policy
Christian Teja, Communications and Marketing, Lottery
Deidre Richardson, Chief Financial Officer, Lottery
Robert Frasca, Interested Member of the Public

I. Opening of meeting

First Deputy Treasurer James MacDonald indicated that State Treasurer Steven Grossman has designated him to sit as Chairman as he was not feeling well. First Deputy Treasurer MacDonald opened the meeting at 10:04 a.m.

II. Approval of Minutes from August 26, 2014

First Deputy Treasurer MacDonald asked the Commission to accept the minutes of the meeting from August 26, 2014. Commissioner Benison made a motion to accept the minutes of the meeting and General Counsel Levine seconded the motion. The minutes were approved 5-0 at 10:05 a.m.

III. Executive Director's Report

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

Executive Director Bresnahan provided an update on Lottery sales for August 2014, reporting that sales were up to August 2013 thanks to a continued surge in Instant Ticket

sales. She added that the prize payout for the month was 73.84 percent, as compared to 71.55 percent in August 2013; and, also that the increase has driven the prize payout for the first two months of FY15 to 72.79 percent as compared to FY14's 70.82 percent, and has decreased net profit by $12.7 million as compared to last year.

Commissioner Boland inquired about the rise in prize payout and if it was anticipated that it would return to the budgeted average of 72.3 percent during the course of the fiscal year. Executive Director Bresnahan attributed the rise to two factors: a significantly higher Powerball jackpot in August 2013 as compared to August 2014 ($448.4 million vs. $90 million), and a continued consumer trend toward the Lottery's higher price point Instant games. She explained that Powerball sales are jackpot-driven, and the game is a 50 percent payout game, meaning 50 percent of all game sales fund the prize pool and the other 50 percent is retained by the Lottery. After expenses (5.7 percent in sales agent commissions and bonuses and 2 percent to administer the game), approximately .42 cents of every $1 spent is net profit. As such, when sales skyrocket around a high jackpot, so does the profit level. Additionally, Executive Director explained that the higher price point Instants ($10, $20 and $30 tickets) each payout over 80 percent, so there is less profit than on lower payout games. She, along with CFO Richardson, went on to discuss that the Lottery adjusted the FY15 budgeted prize expense accordingly from 72.3 percent to 72.7 percent and based on current sales trends still expect to meet the year's revenue and profit projections.

Executive Director Bresnahan continued the Sales and Marketing presentation by providing the following highlights on game performances for August 2014:

- Instant Ticket sales were $28 million higher over last year, and in 23 weeks in market the $30 World Class Millions ticket had amassed over $313 million in sales, also earned a nomination for Best New Instant Ticket from the North American Association of State and Provincial Lotteries (NASPL) that would be decided on October 2nd;
- KENO experienced an increase of $1 million;
- Jackpot Poker, the second monitor game that debuted in June 2013, saw a sales decline of $1 million;
- Lucky for Life sales were down approximately $1 million;
- Mega Millions sales were up $3 million due to a higher jackpot offering as compared to last year; and,
- Powerball sales were down $14 million due to a smaller jackpot offering as compared to last year.

In addition to sharing sales updates, she also provided overviews of a Lucky for Life player promotion underway, as well as the Radio, Digital, Social Media advertising programs, and the newly-launched, but very limited TV advertising campaign to support jackpot awareness in the multi-state Mega Millions and Powerball games.

She concluded with a recap of FY15 sales to date, noting that there has been a $37 million or 4.7 percent increase over last year; and, that net profit for the first three months of the fiscal year was down $12.7 percent.

All charts and supporting documentation can be obtained in the *Executive Director's Report* dated September 30, 2014.

IV. Votes presented to the Commission

4.1 VOTED: For the reasons set forth in the attached memorandum dated September 22, 2014, the Executive Director is hereby authorized to enter into a contract amendment for year two (2) of the three-year contract for the purchase of Double Jackpot Window LED signs and parts 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 second year of the contract shall not exceed four hundred thirty-five thousand two hundred twenty-five dollars ($435,225.00). The maximum obligation for year three of the contract will be set based on legislative appropriation.

Counselor Egan introduced the vote and explained that this is only a vote to set the amount of the maximum obligation for year two of the contract. To date, the Lottery has purchased 4,244 LED double jackpot signs. Executive Director Bresnahan stated that this purchase would enable the Lottery to distribute signs to about 75 percent of all retailers statewide. Commissioner McMahon asked why 100 percent of agents would not receive them and she explained that not all retailers have the window space to hang signs or have policies, particularly chain stores and supermarkets, prohibiting such signs in their windows. Executive Director Bresnahan said that the signs in are working very well and are effectively publicizing the multi-state games' larger jackpots. She explained the signs also serve to eliminate agent error at the retailer location regarding jackpot amounts where the signs are controlled from Braintree. Counselor Egan explained that part of the vote is to purchase replacement parts for signs already in the field. Commissioner Boland asked if the signs in the field are still under warranty. Counselor Egan stated that he believed they still are and thought the warranty was for one year after the in service date. He would check this time frame. To date, he said there were no functional issues with the signs. Executive Director Bresnahan also added that the Lottery had initially intended to outsource the installation process, but devised a strategy to have in-house staff install the signs to save money and also broaden the range of duties the field services staff. She further stated that the duties of the field service staff will change quite a bit with the purchase of new state of the art terminals in the near future compared to the 18 year old terminals currently in use.

First Deputy Treasurer MacDonald asked for a motion to authorize the Executive Director to set the maximum obligation assumed in the second year of the contract not to exceed four hundred thirty-five thousand two hundred twenty-five dollars ($435,225.00). Motion was made by Commissioner Boland and seconded by Commissioner Benison. Motion approved 5-0.

4.2 VOTE (2) Authorize the Executive Director to enter into a three month contract for the purchase, installation and repair of TV monitors with:

Valley Communications
Chicopee, MA

The contract is entered into off statewide contract (OFF33).

The maximum obligation assumed hereunder shall not exceed two hundred two thousand seven hundred fifty dollars ($202,750.00).

Executive Director Bresnahan introduced the vote by stating that the contract to service the Lottery's Monitor Games program has been before the Commission several times over the last year. As stated several meetings ago, the process of installing and repairing television monitors for the KENO and Jackpot Poker was being refined and reorganized to realize every possible efficiency. Executive Director Bresnahan explained that over the years this function was spread over several internal departments which made it difficult to accurately reconcile the costs and the activity in real time. With the assistance of the internal auditor, she said the process has not only been adjusted, but a strategy has been identified to create even greater efficiency. Similar to the installation of double jackpot signs, the installation of TV monitors at retail locations will be assumed by the field services staff.

Initially, all of these services were provided for by Valley off a statewide contract. She stated that Valley may still be asked to perform some of these services after the transition depending on the complexity at retailer location. The date for completely transferring these services in-house is April 1, 2015. Executive Director Bresnahan said this vote is to authorize the next three months of service, as statewide contract OFF33 is set to expire on December 31, 2014. She anticipates that OFF33 will be extended, or a similar service contract offered, and that there will be a need to come back to the Commission for a vote so the final three months of work can be conducted before the duties are shifted to the Lottery staff. Commissioner Boland had questions regarding notice to Valley, the quality of service provided by Valley and the ability of in-house staff to assume these duties. Executive Director Bresnahan said the Lottery has a good business relationship with Valley and that this move was not a reflection of their service. She also added that with a new system the in-house staff is expected to receive far less repair work, so the in-house staff is very receptive to assuming these additional duties.

First Deputy Treasurer MacDonald asked for a motion to authorize the Executive Director to enter into a three-month contract with Valley Communications and set the maximum obligation assumed of the contract not to exceed two hundred two thousand seven hundred fifty dollars ($202,750.00). Motion was made by Counselor Benison and seconded by Counselor Levine. Motion approved 5-0.

4.3 For the reasons set forth in the attached memorandum dated September 12, 2014, the Executive Director is authorized to enter into a three-year contract for criminal background record screening services with the following firm:

Inquiries, Inc.
129 N. West Street
Easton, Maryland

This award is made pursuant to a competitive bid process (RFR LOT #1406) in which two firms submitted proposals and this firm received the highest score.

The maximum obligation shall not exceed three hundred thousand dollars ($300,000.00) over the three years of the contract.

Commissioner Boland recused herself from this vote, as one of the companies involved is a client of her law firm.

Counselor Egan introduced the vote and explained that it is the result of a new RFR for criminal background screening services. These services are provided during the application process where all persons/applicants are subject to a criminal background check in any states where they have resided, been employed and gone to school. Counselor Egan also explained that the RFR reserved the right to use the services on background check updates where the need arose.

Counselor Egan explained that there were four initial companies that submitted timely proposals. The PMT initially determined two of the companies were significantly deficient in its responses to the mandatory requirements of the RFR and disqualified the two companies. The PMT determined that another company was deficient in responding to one mandatory requirement and was given an opportunity to cure its response. Counselor Egan informed the Commissioners that the PMT concluded that the company was still deficient in responding to a mandatory requirement and determined that the Company should be disqualified. The sole company remaining, Inquiries, Inc. is the current vendor. The PMT reviewed its proposal and determined the proposal satisfactorily met all requirements of the RFR and recommends the company be awarded a three-year contract.

First Deputy Treasurer MacDonald asked for a motion to authorize the Executive Director to enter into a three-year contract with Inquiries, Inc. for criminal background

record screening services and set the maximum obligation assumed of the contract not to exceed three hundred thousand dollars ($300,000.00). Motion was made by Counselor Levine and seconded by Commissioner McMahon. Motion approved 4-0-1.

First Deputy Treasurer MacDonald asked for a motion to adjourn. Motion was made by Commissioner Boland and seconded by Commissioner Benison. Motion approved 5-0 and the meeting adjourned at 10:37 a.m.