

Massachusetts State Lottery Commission

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DATE: April 28, 2015

TIME: 10:00 a.m.

MEMBERS PRESENT: Deborah Goldberg, Treasurer and Receiver General
Martin Benison, Comptroller
Shannon Hickey, Assistant General Counsel, Executive Office of Public Safety and Security, designee for Commissioner Daniel Bennett
Meghan Liddy, Commissioner
Anthony Salvidio, Commissioner

ALSO PRESENT: Beth Bresnahan, Executive Director, Lottery
Kerri Coyne, Legal Assistant, Lottery
Elizabeth Day, Deputy General Counsel, Lottery
Matthew DiFrancesco, Director of Operations, Lottery
William Egan, General Counsel, Lottery
Ed Farley, Chief Administrative Officer, Lottery
Lauren Luttrell, Product Manager, Lottery
Michael Lorden, Director of Sales and Regional Operations, Lottery
Paul Mandeville, Director of MIS, Lottery
Judy Moore, Executive Assistant, Lottery
Donna Noble, Paralegal, Lottery
Elizabeth Pottier, Internal Auditor, Lottery
Deirdre Richardson, Chief Financial Officer, Lottery
Patricia Sprague, Legal Assistant/Coordinator, Lottery
Brian Taylor, Director of Compliance, Lottery
Christian Teja, Director of Communications, Lottery
Sheree Williams, Director of Security, Lottery

Chandra Allard, Deputy Communications Director, Treasury
Dave Falcone, Chief of Staff, Treasury
Sarah Kim, General Counsel, Treasury
Jim MacDonald, First Deputy Treasurer
Greg Polin, Deputy General Counsel, Treasury

Sean Barry, State Trooper, Massachusetts State Police

I. Opening of Meeting:

Treasurer Goldberg opened the meeting at 10:06 a.m.

II. Approval of Minutes from March 31, 2015

Treasurer Goldberg asked the Commission to accept the minutes of the meeting from March 31, 2015. Commissioner Salvidio made a motion to accept the minutes of the meeting. Commissioner Benison seconded the motion. The minutes were approved at 10:08 a.m.

III. Executive Director's Report

- a. Sales Update**
- b. Marketing Update**

Following brief introductions from all in attendance, (see above list of members and attendees present), Executive Director Bresnahan reviewed Lottery sales for March 2015 stating that sales were \$11 million higher than the previous March primarily due to a \$14 million increase in Instant Tickets sales. She noted that a \$4 million increase in KENO sales, along with a \$1 million jump in Powerball sales also contributed to the year-over-year growth. She informed the Commission that the Lottery did see some decreases for the month, most significantly in the Mega Millions games which saw a \$7 million sales decrease because of the smaller jackpot offerings as compared to March 2014. She went on to say that the Lottery saw a \$414 million jackpot high in March 2014 as opposed to the \$59 million jackpot high last month.

Executive Director Bresnahan proceeded to discuss that there was an influx of Grand Prize claims during the month which drove the estimated prize payout for the month to 74.95 percent, as compared to the previous year's 73.07 percent. This increase caused the estimated prize payout for the first nine months of FY15 to rise to 72.60 percent, as compared to 71.64 percent for the same time last year, and has served to decrease the year-over-year net profit by an estimated \$15.8 million. Executive Director Bresnahan went on to explain that the payout percentage fluctuates based on the timing of when players cash in their prizes and noted that over the course of a fiscal year, the prize payout typically averages out to the budgeted rate. The Lottery's FY15 budgeted prize payout percentage is 72.7 percent. Executive Director Bresnahan followed up by providing details on the performances of each game within the Lottery's portfolio, which included:

- **Instant Ticket Sales:**
She gave a sales update on the March Instant Tickets that went on sale eight weeks ago. She noted that over the eight week sales period the \$1.00 game generated \$4.6 million in sales; the \$2.00 game just over \$16 million; the \$5.00 game \$38.4 million; and the \$10.00 game \$63.7 million.

Executive Director Bresnahan moved on to a sales update on the Lottery's *Ultimate Garden Party* Instant Ticket that was unveiled at the last meeting. Over the four weeks since its launch, sales for the \$5 game topped almost \$9.8 million. She went on to say that the first \$250,000 "scratch & win" instant cash prize was claimed on April 21st and also that the game's first Second Chance Drawing took place on April 24th. The grand prize winner in that drawing, Douglas Brown of Great Barrington, MA who was not yet aware of his win, will have the choice to select the prize which consists of two premium seats to all ticketed events at the TD Garden for an entire year, a parking pass for each event, and \$25,000 cash, or he could select a \$250,000 cash option. The Lottery received a total of 134,595 Second Chance entries for the drawing. Based on the current order rate, there is only approximately five weeks of ticket inventory remaining in the warehouse. The Lottery printed just over 8 million tickets.

Executive Director Bresnahan then unveiled the four new Instant Tickets that were hitting store shelves as the meeting took place: \$1.00 ticket, *Loose Change*; the \$2.00 ticket, *\$100,000 Payout*; the \$5.00 ticket, *\$1,000,000 Players Club*; and, the \$30 ticket, *Supreme Millions*.

Commissioner Salvidio asked if the Lottery changes the payout with each game launch. Executive Director Bresnahan explained that the payout remains pretty consistent within a price point. The last time the payout of a game changed/increased was in April 2014 when the Lottery introduced a \$30 ticket with an 80.7 percent payout, the highest payout the Lottery offers. She further explained that the more the game costs, the higher the payout is, noting that Massachusetts offers the highest payout out of any lottery in the nation.

Expanding on the April Instant Ticket release, Executive Director Bresnahan outlined the details of the paid advertising for this promotion, noting that the Lottery invested \$400,000 into the production and placement of a multi-media ad campaign to support the launch. The campaign, beginning on April 28th and running through to June 7th is a combination of broadcast (radio), digital and out-of-home paid advertising that focuses on the \$30 Supreme Millions Instant Ticket. Included in the campaign are :15s and :30s produced radio spots airing statewide for three weeks beginning on April 28th, as well as a variety of high-impact digital units and a :15 video/audio spot that will run on monitors at a number of gas station pumps. She proceeded by playing the radio and gas station spots.

- Draw Game Sales:

Executive Director Bresnahan moved on to share that KENO monthly sales were up just over \$4 million. She explained Jackpot Poker sales were down just about 50 percent from last year and reminded the Commissioners that the Lottery is planning to hold focus group testing for a replacement game and is hoping that the Lottery will have a strong alternative by year's end. Executive Director Bresnahan went on to say that although there has been a decline in Poker sales, the Lottery has seen a significant uptick in KENO sales so there has actually been a net gain in Monitor Game sales. Treasurer Goldberg asked if there was a need to have two monitor

games. Executive Director Bresnahan responded by saying that there may not be; however, KENO runs every 4 and a half minutes, so the second monitor game is meant to complement KENO and not to be a competition. She went on to say that KENO is on pace to do about \$850 million for FY15. This prompted Commissioner Salvidio to inquire about the cost to run two games over the cost of running one. Executive Director Bresnahan explained that there was an initial start-up cost when the Lottery first began offering a second monitor game back in 2008, but the expansion since has not been a significant cost to the Lottery. She went on to say that Jackpot Poker's predecessor, The Daily Race Game, was projected to generate \$125 million when it was first rolled out but unfortunately never met the mark. It peaked at about \$22 million in sales and while that is a considerable sales figure, the Lottery feels that there is a bigger market and a better game that can be released. She went on to say that although Jackpot Poker did test well in focus groups, it is a busy game and when you are in an environment such as a bar or a restaurant, simplicity is best and with KENO there is not much guessing.

Other notable game performance information shared: Numbers Games sales were down slightly for the month at \$102,224 and Mass Cash was down by \$21,272 for the month. Megabucks sales were down almost \$320,000 for the month due to a smaller jackpot this year as opposed to last year. Lucky for Life game sales were down slightly at \$72,952 for the month. Mega Millions was down by \$6,697,307, which as discussed earlier, was due to a smaller jackpot. Powerball sales were up \$557,790.

Executive Director Bresnahan concluded her report by recapping the overall sales, and by summarizing that year-to-date sales were up \$11,562,290 and year-over-year Net Profit was down \$7.8 million for the month. Executive Director Bresnahan then discussed March FY15 vs. FY14 Revenue Results noting sales were up \$11 million or 2.9 percent from last year. She also reported that April sales are looking strong so far and that cumulative sales are up \$19 million or 5 percent over April 2014. The year-to-date comparison showed sales up \$118 million or 3.3 percent. An update through the first three weeks of April showed that year-to-date gross sales are up \$136.6 million or 3.48 percent over FY14.

Treasurer Goldberg finished the discussion by commenting that it is critical to be creative and innovative; and, although she is pleased to see sales are stable given the harsh winter, the Lottery needs to be able to produce new games in the near future. Commissioner Salvidio then inquired about the June 24th opening of the Plainridge Park Casino and the potential impact to retail sales. Executive Director Bresnahan responded by saying that Plainridge will be a Lottery retailer, offering KENO in two areas, will have five Player Activated Terminals, and that the Lottery will also be selling a full selection of Instant Tickets in an on-site gift shop. She went on to say that the Lottery does expect that there will be some impact to retail sales, especially to the retailers that are in the vicinity of the facility. Executive Director Bresnahan explained that while it is a different experience going into a casino than it is from walking into a local convenience store, however, there are only so many discretionary dollars to spend on entertainment whether it's the Lottery, a slot machine or going to the movies. She continued by saying that although the Lottery is concerned, we will work to be innovative to come up with fresh games and marketing concepts.

Treasurer Goldberg then asked if the Lottery planned to provide added support to the retailers in the area, and if so, how might we support them and are we monitoring their sales? Lottery CFO, Deirdre Richardson responded by saying that as a first step, we have taken a look at all of the retailers operating within the area of the casinos by regions and have broken it down into 30, 35, 45, 60 and 75 minutes radius. Executive Director said that the Lottery is working with marketing and sales to develop a plan to hone in on the best ways to work with area retailers. She said one of the plans that was discussed was developing second chance opportunities, as well as trying to find co-op promotional ways to tie in local retailers to drive casino customers into their local store locations on their way to or from the facility.

Treasurer Goldberg said that she would like to see a study on which retailers are impacted both positive and negative and how the casino impacts their total sales.

IV. Votes Presented to the Commission

VOTE (1): Treasurer Goldberg asked for a motion authorizing the Executive Director to enter into a one-year contract extension for custodial banking services with **Xerox-ACS of Boston, MA** with a maximum obligation not to exceed \$236,940.00.

Commissioner Salvidio made the motion to enter into the contract, Commissioner Benison seconded the motion.

Counselor Egan introduced the vote by reviewing the supporting materials in the Commission meeting book. He stated that this contract was competitively procured by the Office of the State Treasurer to assist in the cash management function for the Lottery prize accounts. Specifically, the custodial services for the Treasury STRIPS that are the investment vehicle to pay annual prize payments. Counselor Egan stated that this investment vehicle provides a payment before the annual prize payment is due and allows for the Lottery to make the prize payment.

Treasurer Goldberg recognizing there was no further discussion moved the motion to a vote. For the reasons stated above and in the meeting materials, the Commission voted 5-0 to adopt the motion.

VOTE (2): Treasurer Goldberg asked for a motion authorizing Executive Director to enter into a three year contract for the Microsoft Assurance Plan with **Dell Marketing L.P. of Hingham, MA** with a maximum obligation not to exceed \$415,000.00.

Commissioner Benison made the motion to enter into the contract, Commissioner Liddy seconded the motion.

Counselor Egan explained that this purchase is for software licenses which will be expiring in June. This contract would be for a three year period from July 1, 2015 to June 30, 2018. He pointed to the memo included in the vote book that listed each of the Microsoft products included in the license purchase. The Lottery's Director of MIS, Paul Mandeville explained

that this license is for 400 users and covers all of the Lottery's file servers, exchange servers and access licenses. He also added that he believed it to be the best price available.

Treasurer Goldberg recognizing there was no further discussion moved the motion to a vote. For the reasons stated above and in the meeting materials, the Commission voted 5-0 to adopt the motion.

V. Other matters related to the purchase of goods and services by the Lottery

Treasurer Goldberg asked if there were any other matters to discuss. Comptroller Benison , noting it was his final Commission meeting, took a moment to thank Executive Director Bresnahan and to compliment her for all that she has done to further the Lottery in both her role as Director of Marketing and as Executive Director. He went on to say that she has done an outstanding job, and on behalf of the Commonwealth he wished her luck in her new career, adding that the Lottery is only as successful as the people who run it and thanked her again for her efforts.

After asking if there was other business, Treasurer Goldberg sought a motion to adjourn the meeting. Comptroller Benison made the motion to adjourn the meeting and Commissioner Salvidio seconded the motion. The motion passed 5-0. The meeting was adjourned at 10:50 a.m.