

Massachusetts State Lottery Commission

*60 Columbian Street
Braintree, Massachusetts 02184-1738
Tel: (781) 849-5555
Fax: (781) 849-5546
TTY: (781) 849-5678*

DATE: Tuesday, December 22, 2015

TIME: 10:30 a.m.

MEMBERS PRESENT: Deborah Goldberg, Treasurer and Receiver General
Doug Levine, General Counsel, Executive Office of Public Safety and Security, designee for Commissioner Daniel Bennett
Meghan Liddy, Commissioner
Anthony Salvidio, Commissioner
Thomas G. Shack III, Comptroller
Jeffrey Shapiro, Esq, Deputy Comptroller, Chief Operating Officer

ALSO PRESENT: Michael Sweeney, Executive Director, Lottery
Edward Farley, Chief Administrative Officer, Lottery
Christian Gonsalves, Deputy General Counsel, Lottery
Christian Teja, Director of Communications, Lottery
Peter Vande Rydt, Assistant Director of Agent Development and Outreach, Lottery
Judy Moore, Executive Assistant, Lottery

Dave Falcone, Chief of Staff, Treasury
James MacDonald, First Deputy Treasurer
Sarah Kim, General Counsel, Treasury
Greg Polin, Deputy General Counsel, Treasury
Shawn Collins, Legislative Director, Treasury
Chandra Allard, Deputy Communications Director, Treasury
Dan Truong, Assistant Communications Director, Treasury

Ashley McGilloway, Connelly Partners
Justin Vogt, Connelly Partners

Colin Young, State House News Service
Robert Frasca, Interested Member of the Public

I. Opening of Meeting:

Treasurer Goldberg opened the meeting at 10:37 a.m.

II. Approval of Minutes from November 2, 2015

Treasurer Goldberg asked the Commission to accept the minutes of the meeting from November 2, 2015. Commissioner Shack made a motion to accept the minutes of the meeting and Commissioner Salvidio seconded the motion. The motion passed unanimously. The minutes were approved at 10:39 a.m.

III. Executive Director Report

a. Sales Update

b. Marketing Update

Executive Director Sweeney began the meeting by reviewing Lottery sales for October announcing overall sales were up an estimated \$7.1 million over October of last year. Net profit for the month was \$106.5 million, which was primarily due to a shift in the calendar with 7 additional days being included in the net profit figure. After subtracting a 7 day average net profit figure of \$21.3 million, the adjusted change for October 2015 vs. October 2014 is a \$14.7 million increase in net profit. Executive Director Sweeney continued by saying that due to the six additional days in FY16, the year to date net profit figure for the first 4 months is approximately \$319.1 million, as compared to \$309.2 million through the first four months of FY15. After subtracting a 6 day average net profit figure of \$15.6 million, the adjusted year-over-year change for the first four months of FY16 vs. the first four months of FY15 is a \$5.7 million decrease in net profit. Executive Director Sweeney went on to say that the prize payout for the month of October was 70.33 percent, as compared to 73.73 percent in October 2014 and the year-to-date prize payout for FY16 is at 73.93 percent, as compared to 73.01 percent for the same four-month period of FY15. The FY16 net profit and prize payout figures both include accruals associated with a one-time end of game \$20 million that is related to the Mega Cash Instant Ticket game, expected to be awarded in FY16, which is pulling our profit lower.

Executive Director Sweeney continued by saying that the Instant Ticket portfolio saw a \$10.0 million sales increase in October with the release of five new games. KENO sales in October continued to be a strong earner with an increase of \$3.1 million in sales over last year. He also said Powerball, Megabucks Doubler, Mass Cash and the Numbers Game all had slight increases in sales versus October of 2014.

Executive Director Sweeney stated that Mega Millions sales were down significantly at \$8.1 million compared to October of 2014 and said that was due to a jackpot last year which rolled from \$120 million to \$284 million. He then reminded the Commission that these draw games are jackpot dependent. Lucky for Life sales decreased by \$75,494 and Jackpot Poker sales were down \$59,404 as compared to October of 2014. Executive Director Sweeney followed up by providing additional details on each game across the Lottery's portfolio for the month of October, which included:

- October Instant Ticket sales were up approximately \$10 million higher than compared to this time last year.
- KENO sales were up approximately \$3 million.
- Jackpot Poker was down approximately \$59 thousand.
- Numbers Game sales continuing with a three year trend, was down slightly.
- Mass Cash Game showed a slight increase compared to this same time a year ago.
- Megabucks Doubler had a strong month with a good performance with almost \$500 thousand more in sales.
- Lucky for Life, had a slight increase as compared to last month and Executive Director Sweeney reminded the Commission that a number of directors who are involved with Lucky for Life, have been in discussions aimed to revitalize the game.
- Mega Millions year over year is down significantly, but as mentioned before, it is jackpot related and this number was due to a very large jackpot from last October.
- Powerball Game saw an increase of about \$2 million with the matrix changes that were discussed back in September, now in full effect.

Executive Director Sweeney recapped by saying all game monthly sales for October, are up approximately \$5 million year over year.

Monthly Net Profit

Referring to the Monthly Net Profit chart, Executive Director Sweeney pointed out that the raw numbers with the additional seven days, year over year profit seems extremely significant, but when you count in the additional days, and take out the average, there is actually a decrease as compared to October of last year. **(Please reference the handout to provide the detailed sales data discussed.)**

5 Year Comparison Chart

Stating it as a most relevant graph, Executive Director Sweeney proceeded to discuss the 5 Year Comparison chart which shows the highest payout as a percentage of the Lottery's sales from the last 5 years. He explained to the Commission that during the month of October, although the Lottery did see a downward trend that brought the percentage to 73.9 percent, it is significantly higher compared to the tracking of four years previously.

Gross Sales Results

Referring to the Gross Sales Results chart, October FY16 vs. FY15, Executive Director Sweeney pointed out that overall sales were up just about 1.5%. Instant Tickets were a good performer up at 3.1%. Powerball had a strong month overall with sales at about 19%. KENO sales continue to be strong and the Megabucks Doubler for the month did quite well. Year over year unadjusted sales were approximately 2.7% for all products as compared to FY15, and regarding overall revenue, it is Instant Tickets and KENO that lead the pack with all other games showing a marginal performance.

Executive Director Sweeney continued the discussion by reviewing Lottery sales for November announcing overall sales were up an estimated \$17.2 million compared to the previous November of 2014. Regarding the net profit, Executive Director Sweeney explained that due to a shift in the calendar that resulted in 7 fewer days being included in the net profit figure for November 2015, net profit for the month was 86.1 million compared to \$102.5 million in November 2014. However, adding an average net profit of \$21.5 million on those

seven days, the adjusted average for November 2015 vs. November 2014 is actually a \$5.1 million increase in net profit. Executive Director Sweeney went on to say that similar to October, and due primarily to a shift in the calendar which resulted in one fewer day for FY16, the net profit for the first five months for FY16 was \$405.7 million compared to \$415.4 million through the first five months of the previous year. He went on to say that if you add in the additional day with a net profit figure of \$2.7 million, the adjusted year over year change for the first five months of FY16 vs. the first five months of FY15 is overall a \$7 million decrease in net profit. Executive Director Sweeney continued by saying, at the end of November, we are trailing last year's net profit although sales are up by a total of \$7 million. The Prize payout for the month of November did well at 70.98 percent as compared to 70.88 percent in November, 2014 and the year-to-date prize payout for FY16 is at 73.34 percent, as compared to 72.34 percent for the same five-month period of FY15. The FY16 net profit and prize payout figures both include accruals associated with a one-time, end of game \$20 million bonus prize in the Mega Cash Instant Ticket game that is expected to be awarded in FY16.

Executive Director Sweeney proceeded saying that November experienced very strong Instant Ticket sales with an \$11.8 million sales increase and the release of five new games. He pointed out that the \$2 Frosty Cashword game has been extraordinarily popular and said that in an effort to maximize sales, the sales force met recently to discuss redistributing unopened boxes that are out at specific retailers and redistributing them to other retail agents who may be just about out of their stock. KENO sales continued to be a strong earner, experiencing an increase of \$4.8 million in sales over last year. He said Megabucks Doubler, the Numbers Game, Mega Millions, Mass Cash and Lucky for Life all had slight increases in sales versus November of 2014. Powerball sales were down just under \$800,000 and Jackpot Poker sales were down \$35,207. Commissioner Salvidio inquired about the higher payout and asked if it is attributed to the higher priced Instant Tickets. Commissioner Salvidio also asked the Executive Director if he had any figures to compare year over year. Executive Director Sweeney responded by saying that he would supply that information next month with a chart that drills down to the weekly sales numbers for the Instant Game Tickets. He said that in general, week over week sales will show a decrease in the \$2 and \$5 Instant Tickets and a significant increase in the \$10 and \$30 ticket, both of which have the 80% plus prize payout. He went on to say that the combination for the two are at the higher end and the two lower end ones, not always selling as well, leads to that disparity. Commissioner Salvidio replied by asking if we needed to sell the higher priced tickets to stay competitive in the New England area as these tickets are not sold in surrounding states. Executive Director Sweeney responded by saying the Massachusetts State Lottery has the highest price payouts of any lottery in the country and in discussions with other lottery directors, as well as industry leaders, many of the other lotteries are slowly attempting to shift their payout to be similar to the type of payout that the Massachusetts Lottery has. He went on to say that a bulk of the Lottery's purchases are bought by fairly sophisticated consumers who know what the payouts are. Treasurer Goldberg added to the conversation by saying that it's the blend of profit and revenue, it's how you do the mix, and how you massage the margins on different products to get the total blend.

Executive Director Sweeney followed up by providing additional details on each game across the Lottery's portfolio for the month of November, which included:

- November Instant Ticket sales were up approximately \$12 million compared to this time last year.
- KENO sales saw a good increase at approximately \$4.7 million.

- Jackpot Poker continued its slow decline and was down about \$35 thousand.
- Megabucks Doubler, the Numbers Game, Mega Millions, Mass Cash and Lucky for Life all had slight increases in sales versus November of 2014.
- Powerball Game sales were down slightly compared to last year at this time.

Executive Director Sweeney recapped by saying all game monthly sales for November, are up approximately \$17 million year over year and October and November net profits have been good.

5 Year Comparison Chart

Executive Director Sweeney proceeded to discuss the 5 Year Comparison chart which shows the highest payout as a percentage of the Lottery's sales from the last 5 years and pointed out that the overall prize payout cumulative did go down to 73.3% for the year. He cautioned by saying that there are a lot of variables and that figure could increase slightly to end up somewhere around 73.6%. He said that it is continually tracked and he will have a better sense towards the end of February or the beginning of March.

Gross Sales Results

Referring to the Gross Sales Results chart, October FY16 vs. FY15, Executive Director Sweeney explained that overall unadjusted sales were up at 4.6% and Instant Tickets, as well as KENO, continue to be the cash leaders. Megabucks Doubler showed a large percentage increase with a relatively small dollar amount. Year over year unadjusted sales were up approximately 3.1% for all products as compared to FY15. There was a lot of great consumer response with the Holiday Instant Game sales and Executive Director Sweeney took a moment to compliment the Lottery's internal team as well as private associates, Connelly Partners, saying that the Lottery had a creative and robust marketing advertisement using very short dollars. Comptroller Shack took this as an opportunity to say that the placement and the quality of the holiday ad was very well done. Executive Director Sweeney thanked Comptroller Shack and gave special thanks to the Lottery's Chief Administrative Officer, Ed Farley and the marketing team.

Holiday Season Sales Update

Executive Director Sweeney updated the Commission on the week ending October 31 saying that each week, Instant Ticket sales were higher than the previous year and referred to the chart that showed a direct one to one comparison. He said that for the last two weeks, the Lottery has had over \$70 million in Instant Ticket sales and attributed this to the successful advertisement campaign that kicked off during the week of Thanksgiving. Overall, all product sales are up and topping over \$100 million for two weeks in a row and he credited this to the outstanding sales team headed by Director of Sales and Regional Operations, Michael Lorden.

January Instant Tickets Sales Release

Executive Director Sweeney presented a preview of the new Instant Tickets that will go on sale January 5th. He handed out samples of the \$1, \$2 and \$5 tickets and he also previewed the Point of Sale advertising pieces that support the January Instant games. He mentioned that the \$1 and \$2 price point Instant Tickets, *Taxes Paid* did particularly well in focus groups.

Executive Director Sweeney continued the meeting by introducing two members from Connelly Partners, LLC, Ashley McGilloway, Brand Manager and Justin Vogt, Account Director, who updated the Commission on the Season Tickets, Holiday Instant

Tickets and the January Instant Tickets Advertising Campaigns. **(Please reference the handout to provide the details that were discussed.)**

After thanking Ashley and Justin for their presentation, Executive Director Sweeney took an opportunity to introduce Peter Vande Rydt, (P.J.), recently hired by the Lottery as the Assistant Director of Agent Development and Outreach. P.J. will be responsible for enhancing the relationships between the retail agents and the Lottery. Executive Director Sweeney explained that P.J. will act as a liaison, uniquely focusing on communications amongst the retail agents. He will evaluate best practices implemented by the more successful agents and work with agents with whom the Lottery feels that sales could be more robust.

Social Media

Executive Director Sweeney moved on to share what is being done by the Lottery in terms of using social media to promote Lottery products. He spoke about recent and upcoming strategies which include, holiday messaging, responsible gifting, agent awareness and the Patriots, Celtics, and Holiday Bonus sweepstakes. Executive Director Sweeney then went on to say that in an effort to generate more public interest, the Lottery is looking for ways to involve consumers who have had a good experience with the Lottery to promote the Lottery on their own pages. He went on to say that although the concept might be new, one approach that is being explored is to create a new position within the Lottery that will focus exclusively on social media opportunities and we will also look into local colleges to explore some internships possibilities. Executive Director Sweeney used this as an opportunity to say that as part of Social Media campaigning, the Lottery is committed to being aggressive in raising awareness and consciousness concerning any type of compulsory gambling problems. He reminded the Commission that the Lottery is partnered with a number of different non-profits, in particular, the Massachusetts Council on Compulsive Gambling.

IV. Votes Presented to the Commission

VOTE (1): Treasurer Goldberg asked for a motion to authorize the Executive Director to amend the second year contract option for janitorial services with the following company:

S.J. Services
235 Newbury Street
Danvers, MA 01923

This amendment will increase the annual contract amount by \$11,648.22 to pay for prevailing wage increases for FY 2016 and partial FY2017.

The amended maximum obligation assumed hereunder shall not exceed three hundred forty seven thousand three hundred fifty seven dollars and 22/100 (\$347,357.22).

Commissioner Salvidio made the motion to enter into the contract and Commissioner Liddy seconded the motion.

Executive Director Sweeney introduced the vote explaining that this vote was continuous of an ongoing janitorial services contract that the Lottery has had for the last couple of

years. This contract covers the Braintree headquarters as well as all Regional offices. It's a mandatory price increase and the Lottery team recommends the approval.

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 unanimously to adopt the motion.

VOTE (2): Treasurer Goldberg asked for a motion that the Commission ratifies and adopts the Decision of Greg M. Polin Esq. (hearing officer sitting by designation) in the matter of the appeal of

Wakefield Sunoco v. MSLC

Deputy General Counsel, Greg Polin began by explaining that this vote is a result of a recent application for a sales agent license that was denied at a hearing and was appealed to the Commission. A couple of months ago, Deputy General Counsel Polin sat as the designee of the chair and heard the appeal. He described the appeal as a straightforward issue and said that the company that applied for the license, Musleh Management, located at 493 Salem Street in Wakefield and doing business as Wakefield Sunoco submitted the application under the name, Maher Musleh. Deputy General Counsel Polin provided background information saying that this location was previously licensed as a sales agent location from November 2012 until May 2014. However, the individual who submitted that application, was Nael Musleh, who is Maher Musleh's son. In May of 2014, Nael Musleh, voluntarily terminated his license and in September of 2014, Maher Musleh, applied for the license again. When he applied, he was denied by the designee of the Director. He then appealed to the Director and the denial of his license was affirmed. Following the denial he then appealed to the Commission and the Commission will vote to approve, reject or modify the proposed decision. Deputy General Counsel Polin went on to say that the reason Mr. Musleh's application was denied was in most part, due to his credit report. All applicants must have their credit checked and the credit reviewed. When checking an applicant's credit, Deputy General Counsel Polin said that the Lottery uses the agency, Experian which generates and uses a National Risk Model Score. The score ranges from zero (0) to one thousand (1000), with a score of zero (0) equaling exemplary credit and a score of one thousand (1000) equaling poor credit. For over fifteen years, the Lottery has used a score of two hundred (200) as the baseline score and any applicant that has a score of less than two hundred (200), will not be denied as a result of their score. Any applicant with a score over two hundred (200), will often be denied due to poor credit. Mr. Musleh's credit was eight hundred and thirty eight (838) and so his application was denied. After some general discussion, Deputy General Counsel Greg Polin said that based on the above, it was his recommendation that the Commission find that the Director's denial of this application, is authorized and justified.

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 unanimously to adopt the motion.

VOTE (3): Treasurer Goldberg asked for a motion to authorize the Executive Director to exercise the second one-year contract option for terminal ribbon printer cartridges with the following firm:

GTECH
10 Memorial Boulevard
Providence, RI

The original award was made pursuant to a competitive bid Lot#1209. The selected vendor was the one of two companies to file responses.

The total maximum obligation assumed under the contract extension shall not exceed six hundred seventy thousand dollars (\$670,000.00).

Commissioner Liddy made the motion to enter into the contract and Commissioner Salvidio seconded the motion.

Executive Director Sweeney began the discussion by saying that these terminal ribbons are part of the critical infrastructure for the Lottery's full operation and take a number of months to be delivered. Currently, the Lottery has enough on hand, but the supply will be depleted by May or June. Staff at the Lottery felt it was critical to get a vote in now to be able to place the order and have it available when they are needed. The price is being maintained from previous years by GTECH who has been a quality provider to the Lottery.

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 unanimously to adopt the motion.

VOTE (4): Treasurer Goldberg asked for a motion to authorize the Executive Director to amend the contract for Warehouse Equipment Maintenance to add capacity to the distribution line of the Braintree Distribution Center with the following firm:

A-Prime Handling, Inc.
210 Bodwell Street
Avon, MA

This original award was made pursuant to a competitive bid process (LOT BID #1601) for an initial obligation of \$84,000.00 for three (3) fiscal years and \$56,000.00 for two one-year options totaling \$140,000.00 for the entire contract amount.

This amendment will increase the contract amount by \$95,000.00 to pay for the addition to the distribution line.

The amended maximum obligation assumed hereunder shall not exceed two hundred thirty-five thousand dollars (\$235,000.00).

Commissioner Liddy made the motion to enter into the contract and Commissioner Salvidio seconded the motion.

Executive Director Sweeney began the discussion describing this as a critical vote saying that the Lottery distribution line was extremely short for the volume and the range of ticket products that are handled each day. He went on to say that the distribution line, which is much like you would find in a warehouse factory, was originally created for about one-fifth of the ticket products that the Lottery currently has. He described it as the backbone of the operation. He said that this has been a longstanding request and working with Finance and Budget, it was made a priority to fit it into the budget this fiscal year so the expansion could take place. Executive Director Sweeney said that it would take a period of time to complete, but operationally, it is critical to have the games go out correctly, and also for the safety of the Lottery staff. Commissioner Liddy took this as an opportunity to say that in touring the facility, it was amazing what was being accomplished with the restraints of what the Lottery had to work with and said that the Lottery had the Commission's full support.

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 unanimously to adopt the motion.

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

Proposed Norwell Lease

Treasurer Goldberg continued the meeting by reviewing the proposed short-term tenancy agreement for the Norwell facility explaining that the Lottery uses the facility as a back-up facility where the secondary servers are located. Executive Director Sweeney described this matter to the Commissioners as a full disclosure issue and said that there is no need for a vote. He continued by saying that the Norwell lease will run out at the end of the month in January, 2016 and the Lottery is seeking to exercise a one-year extension. He said that it is a good facility that has served the Lottery well and it was recommended that the Executive Director approve this proposed lease.

Special Commission Meeting

Executive Director Sweeney continued the meeting by requesting a special Commission meeting be scheduled for, Wednesday, January 13th at 2:15 p.m. in Boston. He said that he is anticipating that the Lottery team will have a final recommendation concerning the Host Server and Software bid and described it as a critical operational item for the Lottery this year. This would be a robust meeting with members from the Lottery team, the Commissioners and the selected company. It would be an opportunity for the Commission to ask a full range of questions dedicated to the bid.

After asking if there was any other business to discuss, Treasurer Goldberg sought a motion to adjourn the meeting. Commissioner Shack made the motion to adjourn, Commissioner Salvidio seconded the motion. The motion passed unanimously. The meeting adjourned at 11:57 p.m.