

# *Massachusetts State Lottery Commission*

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DATE: February 24, 2015

TIME: 10:00 a.m.

MEMBERS PRESENT: Deborah B. Goldberg, Treasurer and Receiver General  
Tom Shack, Deputy Comptroller and Designee for Commissioner Martin Benison  
Elisabeth Ryan, Assistant General Counsel, Executive Office of Public Safety and Security and Designee for Commissioner Daniel Bennett

ALSO PRESENT: Beth Bresnahan, Executive Director, Lottery  
William Egan, General Counsel, Lottery  
Ed Farley, Chief Administrative Officer, Lottery  
Michael Lorden, Director of Sales & Regional Operations, Lottery  
Judy Moore, Executive Assistant, Lottery  
Deirdre Richardson, Chief Financial Officer, Lottery  
Christian Teja, Director of Communications, Lottery  
James MacDonald, First Deputy Treasurer  
David Falcone, Chief of Staff, Treasury  
Sarah Kim, General Counsel, Treasury  
Jon Ostrowsky, Policy Director, Treasury  
Greg Polin, Deputy General Counsel, Treasury  
Matt Sheaff, Director of Communications, Treasury  
  
Matt Murphy, Reporter, State House News Service

## **I. Opening of Meeting:**

Treasurer Goldberg opened the meeting at 10:07 a.m.

## **II. Approval of Minutes from December 30, 2014**

Treasurer Goldberg, asked the Commission to accept the minutes of the meeting from December 30, 2014. Deputy Comptroller Shack made a motion to accept the minutes of the meeting and Counselor Ryan seconded the motion. The minutes were approved at 10:11 a.m.

### **III. Executive Director's Report**

#### **a. Sales Update**

#### **b. Marketing Update**

Executive Director Bresnahan gave an update for Lottery sales for the month of January, noting that sales were up \$18 million as compared to January 2014. She informed the Commission that Instant Ticket sales for the month were up \$7 million, and that sales for the multi-state jackpot games Mega Millions and Powerball were up \$6 million and \$5 million respectively due to larger top prize offerings as compared to last year. KENO sales increased by \$2 million, while the in-state Megabucks Doubler and Mass Cash games each had a slight sales increase. She also highlighted that there were three games within the draw game portfolio, Lucky for Life, Jackpot Poker, and The NUMBERS Game, that each experienced minimal sales declines in January.

Executive Director Bresnahan proceeded to discuss the estimated prize payout for the month, which was 73.21 percent as compared to 75.48 percent in January of 2014. She explained to the Commission that the prize payout fluctuates throughout the year based on when players cash in their prizes, but it should gradually settle at or close to the budgeted average rate of 72.7 percent. Executive Director Bresnahan pointed out that while the year-over-year decrease in payout was significant, the estimated FY15 prize payout through January is 72.46 percent, which is higher than the 71.37 percent payout for the first seven months of FY14. This has decreased year-over-year net profit by an estimated \$8.1 million.

Executive Director Bresnahan followed up by providing details on the performances of each game within the Lottery's portfolio. She gave a sales update on the Instant Tickets that were released in early January, noting that while they have been selling strongly, there will be a dip in sales in February due to the inclement weather.

As part of the discussion around Instant Tickets, Executive Director Bresnahan presented a preview of the new Instant Tickets that go on sale March 3<sup>rd</sup>. She handed out samples of the \$1.00, \$2.00, \$5.00 and \$10.00 tickets with a "Multiplier" theme and explained that this will be the third time the Lottery has done a series of these style games because of their strong performance. She also previewed the Point of Sale advertising pieces that support the March Instant games.

Executive Director Bresnahan moved on to share sales for that KENO, Jackpot Poker, The NUMBERS Game, Mass Cash, Megabucks Doubler, Lucky for Life, Mega Millions and Powerball as detailed in the Executive Director's report.

During the sales discussion for the multi-state jackpot games Deputy Comptroller Shack inquired about the series of spikes in the sales charts between Feb. 2013 and Jan. 2014. Executive Director Bresnahan explained that those spikes, or peaks, represent sales around record-level jackpots that not only draw out people who regularly play the Lottery, but also draw interest from casual to non-regular players who are more motivated to purchase tickets when the jackpot is \$646 million or higher.

Executive Director Bresnahan concluded the discussion by summarizing that all game sales for the month were up over \$18 million or 4.1 percent and year-to-date gross sales were up \$116 million or 4.2 percent.

Treasurer Goldberg thanked Executive Director Bresnahan for her report and then expressed her concern for February noting that she believes that it will be a “tough month” due to weather. Executive Director Bresnahan responded with an update on sales figures for the previous week that showed a \$10 million dip from the previous year. She went on to say that it was strictly due to weather and that although the product hasn’t changed, the weather will affect the money that people spend on entertainment. She explained that in inclement weather, if it’s not a necessity, then people typically won’t go out of their way buy it.

#### **IV. Votes presented to the Commission**

VOTE (1): Authorize the Executive Director to enter in a one-year contract extension for Charitable Gaming Tickets with the following companies:

**International Gamco, Inc.  
Omaha, Nebraska**

**American Games, Inc.  
Council Bluffs, Iowa**

**Arrow International, Inc.  
Cleveland, OH**

Counselor Egan introduced the vote to the Commission and explained that this request was for a one-year contract extension on Charitable Gaming Tickets with three companies that were all qualified through a competitive bid process and that all have agreed to hold their prices with no cost increases for this year. He went on to say that this is the second time that the Lottery has exercised the extension option and next year, the Lottery will go back out to bid with a full RFR. Counselor Egan explained that Charitable Gaming Tickets are pull tab-style tickets that licensees’ operate and they are the tickets that you’ll often see at Bingo games and other non-profit events. The Lottery supplies the tickets at cost and the licensees’ sell the tickets and award the prizes, keeping the net profit for their organizations.

Counselor Ryan moved that the Executive Director is authorized to enter into a one-year contract extension for the purchase of Charitable Gaming Tickets with International Gamco, Inc., American Games, Inc. and Arrow International, Inc. with a maximum obligation of \$303,000.00. Deputy Comptroller Tom Shack seconded the motion. Motion approved by the Commission 3-0.

VOTE (2): Authorize the Executive Director to enter into a contract extension to allow for the purchase of Self-Service Player Activated Terminals and related parts and services with the following company:

**GTECH Corporation  
Providence, Rhode Island**

Counselor Egan introduced the vote to the Commission and explained this was for a one-year contract extension with GTECH, a company that supplies Self-Service Player Activated Terminals, (PATs), but stressed that there would be no request to increase the maximum obligation of the contract at this time. Executive Director Bresnahan explained to the Commission that these terminals are an updated form of technology intended to eventually completely replace the antiquated Instant Ticket Vending Machines (ITVMs). She went on to say that the Lottery has 525 PATs and that these machines provide a solid return on investment. The average price per machine is \$16,000.00 and a machine pays for itself after just over 20 days in the field. Treasurer Goldberg commented that the Lottery is pushing for new technology and more innovation to be able to stay competitive in an evolving marketplace because the goal is to maximize the monies available to return to the cities and towns. Counselor Ryan asked for clarification as to why the Lottery reduced the number of PATs originally intended to be purchased in the RFR. Counselor Egan explained that it was the Commission's desire at the time of the original vote to ensure that the machines were a good investment before making a larger scale purchase. The Commission wanted the Lottery to demonstrate the PATs effectiveness, and once that was apparent, the Commission voted to increase the authorization to purchase additional machines. Treasurer Goldberg then asked if these machines would be placed in the casinos when they open and Executive Director Bresnahan stated that five were on reserve for Plainridge Park Casino and both MGM and Wynn would also have the machines when they are built.

Deputy Comptroller Shack moved that the Executive Director be authorized to enter into a one-year contract extension to allow for the purchase of Self-Service Player Activated Terminals and related parts and services with GTECH Corporation with the maximum obligation of the contract remaining at \$8,854,396.00. Counselor Ryan seconded the motion. Motion approved by the Commission 3-0.

VOTE (3) Pursuant to the provisions of the Massachusetts General Laws, Chapter 30A, Section 3; and Chapter 10, Section 24, the Commission finds it in the public interest to adopt regulations for the game, Lucky for Life and include the same in the official Rules and Regulations of the Massachusetts State Lottery Commission.

Counselor Egan explained that this vote would finalize the Lucky for Life game regulations which were changed to accommodate the game's expansion from a six state New England footprint to include a total of 17 participating states by the end of the summer. He explained that in January 2015 the game's matrix and certain prize amounts were increased to improve a player's chances to win. Deputy Comptroller Shack asked how long it would be before the Lottery would see the results of these changes. Executive Director Bresnahan responded by saying that in a typical scenario, games changes almost always yield immediate results,

however, it would be a bit difficult to measure that impact in this instance due to the inclement weather that coincided with the changes and advertising campaign launched to support the expanded game. She noted that Lottery players, particularly in Massachusetts, are extremely knowledgeable when it comes to game odds and prize levels. Treasurer Goldberg remarked that it would be interesting to see the actuals as to how the weather affects sales.

Counselor Ryan moved to adopt the regulations for the game, Lucky for Life, and to include the same in the official Rules and Regulations of the Massachusetts State Lottery Commission. Deputy Comptroller Shack seconded the motion. Motion was approved by the Commission 3-0.

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

**a. Section 9C budget cuts.**

Executive Director Bresnahan discussed in detail the negative impact that the 9C Budget cuts will have on the Lottery's ability to maximize revenue generation and net profit in FY15 and also in FY16. She said that the Administration's 9C cuts include a 1.79 percent reduction to the Lottery's FY15 appropriations, which with only five months remaining in the fiscal year, requires cutting \$1,689,407.00 to revenue generating programs and initiatives.

Executive Director Bresnahan explained that while the Lottery is attempting to distribute the cuts in a manner that minimizes, to the extent possible, the overall impact to its revenues and net profit, there is no way that the unrestricted local aid dollars that are returned to the Commonwealth's 351 cities and towns will not be affected. She reminded the Commission that Lottery net profit is the single-largest source of unrestricted local aid to Massachusetts' municipalities.

Executive Director Bresnahan said that she, along with the Lottery's CFO and other staff members, took a look at the budget to see what reductions could be made with the five months left in the Fiscal Year to funds that hadn't yet been spent or encumbered. She said cutting the budget by nearly \$1.7 million will require the Lottery to remove three instant "scratch" tickets from the print schedule, halt expansion and repairs in its monitor game program, and pull back on advertising initiatives which will result in an estimated \$65.4 million drop in FY15 revenue and also a \$130.9 million decrease in FY16 revenue projections. This will decrease the Lottery's estimated net profit projections for FY15 and FY16 to \$935.4 million (-\$12.4 million) and \$897.4 million (-\$22.5 million), respectively.

Treasurer Goldberg thanked Executive Director Bresnahan and said that the point to take away is that in all of her conversations with the Governor's Office and with key lawmakers, it has been said that these cuts would have no impact on local aid, but cutting the Lottery's budget does impact local aid due to its direct link to generating profit returned to cities and towns. She said that the Lottery already operates lean and gives the most back to the local aid fund. She continued by noting that the Lottery is the number one Lottery in the country and gives back the most to cities and towns on a very tight budget. She stated that she is very concerned, and plans to again speak to the Legislature about how this hinders the Lottery's ability to produce at the maximum return level. In her earlier conversations with the Governor and Ways and Means Chairs, Treasurer Goldberg requested to hold the Lottery "harmless" in

the 9C process and asked for an increase in FY16, not a decrease because the Lottery is heading into an even more competitive environment; as such, it simply cannot be expected to do more with far less.

Deputy Commissioner Shack added that a cut of 1.79 percent to the overall budget at this late stage in the fiscal year is really like taking a hit that is two times that size because a majority of the budget appropriations have likely already either been spent or committed to initiatives underway. He understood why the cuts were being made to the programs and initiatives laid out and commended the Lottery for making such difficult choices.

Treasurer Goldberg concluded the conversation by saying that to stay competitive, the Lottery does not want to give up ground at a time when the competitive environment is changing with the onset of expanded gaming. The Lottery needs to hold strong and grow.

After asking if there were any additional comments from those in attendance, Treasurer Goldberg sought a motion to adjourn the meeting. Motion was made by Deputy Comptroller Shack and seconded by Counselor Ryan. The motion passed 3-0. The meeting adjourned at 11:01 a.m.