

Massachusetts State Lottery Commission

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DATE: July 23, 2015

TIME: 10:00 a.m.

MEMBERS PRESENT: Deborah Goldberg, Treasurer and Receiver General
Tom Shack, Comptroller
Meghan Liddy, Commissioner
Anthony Salvidio, Commissioner

ALSO PRESENT: Michael Sweeney, Interim Executive Director, Lottery
Edward Farley, Chief Administrative Officer, Lottery
Christian Teja, Director of Communications, Lottery
Deirdre Richardson, Chief Financial Officer, Lottery
Judy Moore, Executive Assistant, Lottery
Lauren Luttrell, Product Manager, Lottery
Owen Doherty, Manager, Product and Promotional Development, Lottery

Dave Falcone, Chief of Staff, Treasury
James MacDonald, First Deputy Treasurer
Sarah Kim, General Counsel, Treasury
Jon Ostrowsky, Policy Director, Treasury
Chandra Allard, Deputy Communications Director, Treasury
Shawn Collins, Legislative Director, Treasury

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

I. Opening of Meeting:

Treasurer Goldberg opened the meeting at 10:04 a.m.

II. Approval of Minutes from June 30, 2015

Treasurer Goldberg asked the Commission to accept the minutes of the meeting from June 30, 2015, amended. Commissioner Shack made a motion to accept the meeting minutes as

amended. Commissioner Liddy seconded the motion. The motion passed 4-0. The minutes were approved as amended at 10:06 a.m.

III. Executive Director Report

a. Sales Update

b. Marketing Update

Interim Executive Director Sweeney began the meeting by delivering the Lottery's Sales Update stating that there is continuing good news from the Lottery. During FY 15 (July 1, 2014 ending June 30, 2015), Interim Executive Director Sweeney was pleased to report sales of \$5.011 billion which surpassed the previous sales record of \$4.863 billion set last year by approximately \$148 million, marking the fourth consecutive year of record-setting sales. He said we anticipate returning \$983.5 million in net profit to the Commonwealth, which is \$35.7 million higher than the \$947.8 million that was originally included in the FY15 state budget. The final number will be included in the Lottery's financial statement of operations for FY15 which is to be completed in September. He went on to say that there may be a slight variation in that number, but it would be a minor amount. The Lottery spent an estimated \$100.5 million on administrative costs in FY15. These costs remained at approximately 2 percent of overall revenues, the lowest of any Lottery operating in the United States. Interim Executive Director Sweeney stated that in June 2015, adjusted Fiscal Year sales were up over \$28 million over last year and the prize payout for the month was 75.46 percent as compared to 75.15 percent in June 2014. This increase for the month drove the overall estimated prize payout for FY15 to 72.65 percent, which is just under the 72.7 percent payout rate that was budgeted for the fiscal year. The prize payout percentage fluctuates based on the schedule or rate at which players' cash in their prizes. Interim Executive Director Sweeney noted that this prize payout could increase next year as the Lottery continues to move some of the price points of the Instant Game tickets toward the higher end of the scale as opposed to the \$1.00 and \$2.00 tickets. In general, these tickets have a higher payout rate that goes from 75%-80% depending on the game. June's adjusted Fiscal Year sales increase was driven by a \$17 million bump in the Instant Ticket portfolio, thanks in part to four new games that were released in April including (\$1, \$2, \$5 and \$10 tickets). He also credited the increase to the continued excitement with the \$30 Supreme Millions ticket that debuted in late April, which is a very strong sale product for the Lottery. Additionally, Interim Executive Director Sweeney noted that KENO continued to perform strongly with a nearly \$9 million increase in sales; a \$2 million increase in Mega Millions sales; and, nearly a \$2 million bump in Numbers Game sales. Powerball experienced a slight sales decrease of over \$1 million in June.

Interim Executive Director Sweeney then proceeded to review Lottery Instant Games Monthly Sales Charts and pointed to a descriptor which was added to the title as *Unadjusted Non Fiscal Year* and explained that the numbers will vary slightly than the numbers previously provided. (Please reference the handout to provide the detailed sales data discussed). He explained that these charts do not include figures related to Season Ticket sales, secured interests, bond fees and other types of related items as well as not being an exact parallel with the fiscal year, which may result in a slight adjustment. Instant Game sales have been performing strong year over year for the last three years.

Interim Executive Director Sweeney discussed the performance of each individual game within the Lottery's portfolio, which included:

- June Instant Ticket Sales:
Interim Executive Director Sweeney provided an update on June Instant Ticket sales during which the Lottery introduced a number of tickets including (\$1, \$2, \$5 and \$10 tickets). The four week sales on these tickets have been strong with a good consumer response and had previously tested well on marketing surveys prior to their release.
- New Instant Ticket Release for August
Interim Executive Director Sweeney introduced the August Ticket release scheduled for August 4th. He said that there are four additional tickets, with price points of (\$1, \$2, \$5, and \$10) explaining that the top prizes on the \$10.00 ticket is \$4 million in comparison to the \$2.00 ticket which is \$100,000. He pointed out that in an effort to add appeal, the \$1.00 ticket has two different versions, each with different colored backgrounds. He then passed around Point of Sale (P.O.S.) advertising associated with these new tickets that will be going out to retailers. He continued by saying that the Lottery will continue to engage social media in a variety of formats; Facebook, YouTube, The Lottery Home Page, Twitter and Flickr and said that the Lottery will use its social media venues to be proactive and take advantage of these sites to promote Lottery products and upcoming events.
- Other Game Sales:
Interim Executive Director Sweeney shared additional details across the Lottery's game portfolio.
 - KENO sales continue to be a solid driver for the Lottery. He referred to the *Unadjusted Non Fiscal Year chart, July 2012 through June 2015* and pointed out sales at approximately \$6.1 million higher from the previous year, which is a trend that has been continuing for multiple years.
 - Jackpot Poker game sales continued as a marginal performer and is in the process of being phased out as the Lottery tests new games.
 - Numbers Game sales have been on a consistent historical track with a slight increase this month.
 - Mass Cash Game also saw a slight increase as well with numbers in a positive territory, but is not seeing a lot of movement. Historically, year over year it's been tracking its own performance.
 - Mega Bucks sales have seen a slight increase year over year from last June and the numbers have been fairly consistent with little fluctuation.
 - Lucky for Life sales indicated a bit less revenue from the 2012 to 2013 time period, with a slight statistical jump from last year.
 - Mega Millions, driven by the increased jackpot amounts, is about \$2 million over the previous year.
 - Powerball Game Monthly sales saw a slight decrease, but that figure again is based around the size of the jackpot amounts available during the course of the year.

Interim Executive Director Sweeney recapped overall sales noting that Net Monthly Profit saw a significant increase, with an overall growth in tracking with previous years, and roll out products continue to do well with a positive response from both the consumer and with focus testing.

Year over year sales continue to be driven by Instant Ticket sales as well as KENO sales. The increase across the year in KENO was approximately 9.7% and the Instant Games were up 1.7%. The Lottery retains a strong overall sales total of \$396 million. Year to Date sales indicate Instant Ticket sales remain the primary driver with KENO sales also being a very strong supporter and both just a little bit over 4% for the time period.

Interim Executive Director Sweeney referenced two of the games listed in the portfolio; the *Race Game* and *Super 50-50 Raffle*. Going forward, he requested the Commission's permission for these two games to be removed from the graph. He explained that neither game has been in circulation and are not relevant for this chart. Interim Executive Director Sweeney then asked permission from the Commission to change the column title on the chart labeled as, *Online Games*. He explained that with the increased awareness across the Commonwealth regarding Online Gaming, his concern is that a member of the public or the Press or any other association may see this and mistakenly assume that the Massachusetts State Lottery offers Online Gaming. He asked the Commission to change the label to be more descriptive such as, Draw Games Plus K and remove the word, *Online*. Treasurer Goldberg agreed with Interim Executive Director Sweeney saying that she thought it was a good idea and added, "We know internally what that means, but right now the discussions around I Lotteries and the like, refer to it as Online Gaming." Treasurer Goldberg said we should be very clear about what we are doing and what our numbers are about. Commissioner Salvadio concurred and suggested that it should be updated to something that is more accurate.

Concluding the report, Interim Executive Director Sweeney took a moment to praise the Lottery team saying that staff has been extremely gracious with their time and in giving him a clear understanding of the operation. He continued by saying that there is a good team at the Lottery and it shows on a day-to-day basis. Treasurer Goldberg took a minute to thank Interim Executive Director Sweeney and said that the feedback she has been receiving on his performance is that the staff feels positive about the insight and leadership that Interim Executive Director Sweeney has displayed. Commissioner Shack expressed that he recognizes how well the Lottery is run and was extremely impressed with the 2% of overall revenues as an administrative cost. "It is a remarkable number and all should be congratulated on being so effective with such a limited access to resources." Treasurer Goldberg agreed, yet pointed out that the Lottery's success is also almost our problem. "In terms of accessing increased capital from the Legislature, we're going to have to show them data that we are being impacted. That's why we are monitoring Plainridge very, very carefully, because it will give us initial data that we can access and then move forward." Treasurer Goldberg stated that it is a remarkable lottery and that the mission is to get funds back to the Commonwealth and back to all of the cities and towns and everyone really puts in that effort to make that happen.

IV. Votes Presented to the Commission

VOTE (1): For the reasons set forth in the attached memorandum dated July 7, 2015, the Executive Director is authorized to enter into a contract for the purchase of IBM Disk Storage Servers with the following firm:

PSR, Inc.
770 Dedham Street
Canton, MA 02021

This original award was made under a statewide contract ITC47.

The total maximum obligation assumed under the contract shall not exceed two hundred sixty thousand dollars (\$260,000.00).

Treasurer Goldberg informed the Commission that she had been previously brought up to date regarding this vote and did not have any questions. Commissioner Shack asked if this was utilizing a statewide contract and Interim Executive Director Sweeney said, yes and assured the Commission that the Lottery has had a lot of conversations with MassIT as well as a good working relationship.

Treasurer Goldberg asked for a motion to authorize the Executive Director to enter into a contract for the purchase of IBM Disk Storage Servers with PSR, Inc. Canton, with the total maximum obligation not to exceed two hundred sixty thousand dollars (\$260,000.00). Motion was made by Commissioner Shack, Commissioner Salvidio seconded the motion. Motion was approved 4-0.

VOTE (2): For the reasons set forth in the attached memorandum dated July 15, 2015 the Executive Director is authorized to enter into a three-year contract with two one-year options for the provision of Advertising Services in accordance with the attached memorandum with the following company:

Connelly Partners
Boston, MA

This award is made pursuant to a competitive bid process (RFR LOT #1508), in which three firms submitted the proposals and Connelly Partners received the highest score.

The maximum obligation for the first year of the three-year contract with Connelly Partners shall not exceed seven million dollars (\$7,000,000).

Treasurer Goldberg asked Interim Executive Director Sweeney for his comments, and he explained that the Advertising team included members from the Lottery sales force and Legal staff and they worked multiple months reviewing submissions on this particular RFR for Advertising Services. He then asked Ed Farley, Lottery Chief Administrative Officer to comment on the process. Mr. Farley informed the Commission that this was based on a \$7,000,000 figure with the understanding that due to fluctuations and 9C cuts that the number could change. He stated that the team anticipates that Connelly will provide the best value for the Lottery and that Connelly has the creative resources to assist the Lottery in achieving their goals and objectives in the future. He continued by saying that the team requested a best and final offer from each of the bidders and in doing so saved \$329,000 over a three-year period.

Treasurer Goldberg asked for a motion to authorize the Executive Director to enter into a three-year contract with two one-year options for the provision of Advertising Services with

Connelly Partners, Boston, MA with the maximum obligation for the first year of the contract not to exceed \$7,000,000. Motion was made by Commissioner Salvidio, Commissioner Liddy seconded the motion. Motion was approved 4-0.

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

Treasurer Goldberg asked if there was any other business to discuss. Commissioner Liddy asked Interim Executive Director Sweeney about an update on the Plainridge Casino. He responded by saying that Deirdre Richardson, Chief Financial Officer and Michael Lorden, Director of Sales and Regional Operations for the Lottery have both been on top of the situation, and one of the things that they are looking at in particular are Lottery sales at locations within a fifteen minute drive from the casino. He discussed the initial review of the data is showing that Lottery sales are positive, but they are not as strong as the sales that are outside of that fifteen minute zone. He cautioned that these are very early numbers with about three weeks of solid data and asked the Commission to take that into consideration. He went on to say that the decreases are in bar, restaurant and lounge type of locations, but yet sales remain strong at gas stations and in retail stores that sell Lottery products. Interim Executive Director Sweeney discussed the Lottery continuing to play an active role in working with the retailers by providing increased signage, open communication, and assured the members of the Commission that any and all issues are addressed quickly. He concluded the update by saying that Lottery sales at Plainridge continue to be strong.

After asking if there was any other business to discuss, Treasurer Goldberg sought a motion to adjourn the meeting. Commissioner Liddy made the motion to adjourn, Commissioner Shack seconded the motion. The motion passed 4-0. The meeting adjourned at 10:47 a.m.