

Massachusetts State Lottery Commission

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DATE: June 30, 2015

TIME: 10:00 a.m.

MEMBERS PRESENT: Deborah Goldberg, Treasurer and Receiver General
Thomas G. Shack, III, 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
William Egan, General Counsel, Lottery
Ed Farley, Chief Administrative Officer, Lottery
Judy Moore, Executive Assistant, Lottery
Deirdre Richardson, Chief Financial Officer, Lottery
Michael Sweeney, Interim Executive Director, Lottery
Christian Teja, Director of Communications, Lottery

Dave Falcone, Chief of Staff, Treasury
Chandra Allard, Deputy Communications Director, Treasury
Alberto Chavez, Legal Intern, Treasury
Shawn Collins, Legislative Director, Treasury
Sarah Kim, General Counsel, Treasury
James MacDonald, First Deputy Treasurer
Jon Ostrowsky, Policy Director, Treasury
Greg Polin, Deputy General Counsel, Treasury
Rebecca Harris, Legal Intern,
Kathy Sheppard, Deputy Comptroller

Robert Frasca, Interested Member of the Public

I. Opening of Meeting:

Treasurer Goldberg opened the meeting at 10:13 a.m.

II. Approval of Minutes from May 26, 2015

Treasurer Goldberg asked the Commission to accept the minutes of the meeting from May 26, 2015. Commissioner Salvidio made a motion to accept the meeting minutes. Commissioner Salvidio seconded the motion. The minutes were approved at 10:15 a.m.

III. Executive Director Report

a. Sales Update

b. Marketing Update

Executive Director Bresnahan reviewed Lottery Sales for May, 2015 stating overall sales fell by \$472,530 as compared to sales in May, 2014. She attributed an \$8 million decrease in Instant Ticket sales solely to the timing of the release of the second \$30 game which launched one week later than its predecessor's debut in 2014, and led to the slight year-over-year sales dip. She informed the Commission that while Mega Millions experienced a \$4 million increase, Keno sales grew by \$3 million and Powerball sales increased by \$1 million in May. There were minimal changes in the other offerings within the Lottery's draw game portfolio.

Executive Director Bresnahan proceeded to discuss the estimated prize payout for the month, which was 71.44 percent compared to 72.05 percent in May, 2014. This brought the estimated prize payout for the first 11 months of FY15 to 72.43 percent as compared to 72.13 percent for the same time period in FY14. She went on to say that while the estimated prize payout percentage has increased slightly over last year, overall games sales have grown significantly and are \$136 million, or 3.1 percent over last year's sales through the end of May. Accordingly, the year-over-year net profit has increased by an estimated \$8.3 million, setting the Lottery on course to meet the projected FY15 return.

Executive Director Bresnahan completed the overview by stating that as the fiscal year draws to a conclusion, the Lottery anticipates posting a fourth consecutive year of record-breaking sales and marking the highest point in the Lottery's 43-year sales history. She went on to say that the continued excitement around the April games, including \$30 Supreme Millions, along with the four new Instant Tickets that were released on June 23rd, should help the Lottery to solidify another banner year.

Executive Director Bresnahan continued on to discuss the performance of each individual game within the Lottery's portfolio, which included:

- **June Instant Ticket Sales:**

Executive Director Bresnahan provided a recap on the Instant Ticket game sales noting that sales were down \$8,367,910. She demonstrated the social media graphics featured on the Lottery's Facebook, YouTube, Homepage and Twitter accounts supporting the four new Instant Tickets that were released on June 23rd. Executive Director Bresnahan then introduced Christian Teja, Lottery Assistant Director of Communications who provided the details of the paid advertising associated with the June Instant Ticket launch. Mr. Teja began by explaining that the Lottery invested \$100,000 for the production and placement of a multi-media ad campaign supporting the June Instant Ticket launch. The campaign began on the launch day and will run

through July 21st. The combination of digital and out-of-home paid advertising has a summer theme, “Sunny... With Chances of Winning Millions!” and focuses on the four new tickets as a group and the total cash prizes of over \$349,000,000. He went on to say that the campaign components included a variety of high-impact units that will be running across multiple platforms (desktop, mobile, tablet) for a four week period on high-traffic/high-visibility sites, including Boston Herald.com, Mass Live in the Western part of the state, & TV websites across Massachusetts. Mobile units will include a locator map showing nearby Lottery retailers. Mr. Teja also said that a four week (June 23rd-July 21st) out-of-home strategy features digital screens (70-inch vertical displays, 55-inch horizontal displays) at high traffic transit hubs (Back Bay, Downtown Crossing, Kenmore, South Station), a paid social media strategy using a mix of promoted posts and said that graphic-rich ad units on Facebook will round out the campaign.

Executive Director Bresnahan continued the discussion by providing an update on the first week of sales for the June ticket release and gave an overview of each game’s performance. The \$1.00 ticket, *Hit \$50* generated \$69,600; the \$2.00 ticket, *Money, Money, Money*, sold \$210,738; the \$5.00 ticket, *\$1,000,000 Jackpot*, sold \$1,124,805; and the \$10.00 ticket, *\$4,000,000 Payout*, generated strong sales for the week at \$1,984,270. To give a sense of how well all of these tickets are performing, she said that the year over year difference is a \$3 million dollar increase. She then explained that summer is usually slower in terms of sales, but due to these products along with the two \$30.00 tickets and the promotions around them, the Lottery is seeing an uptick in sales.

- Other Game Sales:

Executive Director Bresnahan moved on to discuss May’s KENO sales which were up \$3,010,899. She reviewed the details of the Fourth of July Second Chance promotion and explained that similar promotions are offered during various holiday weekends throughout the year, each yielding a sales boost during the promotional period. Executive Director Bresnahan showed in-store Point of Sale (P.O.S) advertising for this promotion and explained that every non-winning KENO, KENO Bonus & KENO-to-Go ticket sold from July 1st through July 7th will have a second chance to win \$2,015 and Five (5) serial numbers will be selected each day during the promotional period from the pool of non-winning tickets sold the previous day. Jackpot Poker games sales were down as expected at \$194,632; Numbers Game sales were up \$497,981; Mass Cash sales were up slightly at \$23,354.

Commissioner Salvidio took a moment to ask Executive Director Bresnahan a series of questions regarding the timing in-between KENO and Jackpot Poker. Executive Director Bresnahan explained that there is a game every four and a half minutes and when KENO is running, Jackpot Poker is not. Treasurer Goldberg added to the discussion by saying that the Lottery is looking for a new game that would be in addition to KENO, but not take away from it. Executive Director Bresnahan agreed by saying that the Lottery has the most successful KENO game in the country and it’s very important to the portfolio and therefore, the Lottery is looking for a game that will compliment KENO and not compete with it.

- Season Tickets Summer Discount Program

Executive Director Bresnahan continued on to discuss the Season Tickets Summer Discount program and passed out P.O.S. advertising for this promotion. She explained that the Lottery will be offering a special, limited time only discount on

any Season Ticket purchase starting July 5th and running through August 8th, 2015. Discounts are being offered on Mega Millions, Megabucks and Lucky for Life Tickets. She went on to say that typically the Lottery would have offered this discount on the Powerball Tickets as well, but due to upcoming changes in the multi-state Powerball game, Powerball Season Tickets will not be available for sale after July 4, 2015, but will resume after the game changes take effect in October 2015. Executive Director Bresnahan then asked Christian Teja, Lottery Assistant Director of Communications to once again provide the details of the advertising for this promotion. Mr. Teja explained that the Lottery invested \$250,000 for the production and placement of a multi-media ad campaign beginning on July 5th and ending on August 8th. He said it's a combination of TV, digital and direct mail paid advertising that uses the "Seasons Change, Your Numbers Don't Have To" theme that was used during the winter campaign. He went on to say campaign components include a :15 TV spot that will air in the Boston and Springfield markets and a variety of high-impact digital units (including the :15 TV spot) that will be running across multiple platforms (desktop, mobile, tablet) on high-traffic/high visibility sites for a five week period. A ValPak mailer will be sent out to 850,000 households across the state in mid-July to help promote the summer discount and that a paid social media strategy on YouTube and Facebook will round out the campaign. Mr. Teja then played the :15 second TV spot, which prompted Treasurer Goldberg to mention that while the benefit behind the promotion is the discounted price, the spot did not include any reference to a discounted price. Mr. Teja agreed to work with the vendor to update the spot to include reference to the discount. The Treasurer then asked Executive Director Bresnahan if in past history, by offering a discount, if it has shown that it actually generates more revenue. Executive Director Bresnahan responded by saying that this is the second generation of a season ticket campaign that the Lottery has done using a paid strategy and last time the Lottery saw a significant jump in sales using the same information that is being used in this campaign. Councilor Egan cautioned that when promoting the discount, it is important to show that it is for a limited time only.

Megabucks Doubler sales were down \$431,430 and Executive Director Bresnahan explained that this amount is a product of the jackpot level, and said that the higher the jackpot, the higher the sales. She went on to say that the jackpot is now on the rise and tomorrow's expected jackpot is \$2,900,000 which is generating an uptick in sales. Lucky for Life saw a slight increase in sales at \$53,028 and Executive Director Bresnahan commented that this is a positive change due to the expansion of the game, with more favorable odds for the players and increased media advertising. Mega Millions was up \$3,612,503; Powerball Game monthly sales were up \$1,323,677.

Executive Director Bresnahan concluded the report by recapping that overall game sales were down \$472,530 and net profit for the month was up \$2,179,570 and the net profit through May was \$924,655 as compared to FY14 through May which was \$915,577. Looking at the yearly sales chart, Commissioner Shack took a minute to point out the dramatic spike in sales from June 2012 to May 2013 and asked Executive Director Bresnahan what it was due to. Executive Director Bresnahan explained that it was attributed to a Mega Millions jackpot and said that for every dollar spent, 50% goes to the jackpot, almost .06 cents goes to the retailer selling the ticket, .02 cents goes to the administration and .42 cents is net profit.

Year-to-date sales are \$136 million ahead of last year or 3.1 percent higher. She also updated the Commission through to June 27th reminding the Commission that there were still 3 days remaining that had to be accounted for in the overall sales, but that the gross sales are \$4.97 billion, which is \$148.1 million more than last year and the adjusted gross sales \$4.948 billion, which is up 2.8 percent over last year, and said that the Lottery is on course for another record year.

IV. Votes Presented to the Commission

There were no votes on the agenda for this meeting.

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 and Executive Director Bresnahan referred the Commission back to a vote adopted in the March meeting regarding KENO installation and repair installation services. She said she gave some thought as to whether or not a vote was necessary to set maximum obligations for monitor game services with Valley Communications for FY16. The Lottery did some calculations and based on the progress, the Lottery does not anticipate needing the \$150,000 threshold for a Commission vote, and said, nor does the Lottery anticipate needing half of that. (See Vote (3) *Commission Meeting Minutes from March 31, 2015 a motion authorizing the Executive Director to enter a two-month contract extension for the installation and purchase of television monitors with Valley Communications Systems, Inc., with an increase to the maximum obligation of \$47,250.00 and not to exceed \$250,000.00*) Executive Director Bresnahan then asked Michael Lorden, Lottery Director of Sales and Regional Operations, to provide a status update. Mr. Lorden began by saying that over the past six months the Lottery's Field Services department did an outstanding job of shadowing outside vendor, Valley Communications and said that likewise, Valley has been great in training the Lottery employees on installation and said that the project is basically complete. He went on to say that the Lottery has put in about 130 KENO installations and have taken on the repair and maintenance function from Valley, pulling in and swapping out about 125 of the video monitors, repairing 80 and redeploying them. He said that he could say with confidence that the Lottery has taken the responsibility from Valley and brought it in-house. In going forward, he believes that the Lottery will be able to do all installation and maintenance work in-house. Executive Director Bresnahan added to the discussion by saying that if the Lottery estimates doing 10 installations a month, and if one of those installations needs to be outsourced, Valley's current cost is \$1179.00 per installation (that cost includes a TV), and based on that figure, the installations for the year would run the Lottery \$14,148.00. She went on to say that on average, the Lottery repairs about 18 monitors at the average cost of \$479.60 and if we outsourced three a month, the estimated cost of repairs with Valley or a similar vendor would be \$17,265.60. This would bring the FY16 estimated spend to \$31,413.60 which is a significant drop compared to the FY14 spend of \$734,239.37 and last year just over \$250,000.00. She went on to commend and thank Mr. Lorden by saying that he did a wonderful job on this project and in bringing the cost down tremendously, and also in repurposing and redeploying staff to make this happen.

Following this discussion Executive Director Bresnahan moved on to speak about the opening of the Plainridge Park Casino which opened its doors to the public on June 24th and

once again asked Mr. Lorden if he could provide an update to the Commission. Mr. Lorden began by saying that Lottery staff has been at the casino since the soft opening on June 22nd and was happy to report that installations are running smoothly. He informed the Commission that the only problem he encountered was two vending machines that shut down because the cash cartridges were full. He went on to say that the Lottery has two KENO installations, one at Flutie's Sports bar and one at the original race bar. He observed that the casino was standing room only and also observed some operational issues not Lottery related, e.g., personnel and the general set up of operations. He said for the most part the Lottery product is selling well and finds it to be integrated perfectly. Treasurer Goldberg thanked Mr. Lorden for his update and then expressed her concern regarding the impact that the opening of Plainridge may have on Lottery retailers in the surrounding region. She then asked Deirdre Richardson, Lottery Chief Financial Officer for an update. Ms. Richardson began by saying that she and Mr. Lorden have been doing an analysis by zip codes throughout the surrounding region and input roughly 500 zip codes into MapQuest to determine how far they were to each of the three casino sites, Plainridge, Everett and Springfield. She said by using that data, they are now able to identify Lottery revenues in those areas. She went on to say that looking at Plainridge, she determined that the Lottery has about \$122.5 million dollars within fifteen minutes of the Plainridge Casino. She went on to say that number could be broken down further by type of business, and said that by working together with Mr. Lorden they are able to determine how best to work with retailers. At this time, Ms. Richardson was unable to provide any specific numbers as the analysis is still in the preliminary stages. Mr. Lorden informed the Commission that some of the closer agents have taken a reduction over their KENO sales in the past five or six days. However, these agents have seen an increase of sales in their other products such as gasoline, but it will take time to see where the trend actually goes. Commissioner Salvidio stated that the casino could be viewed as an advertising opportunity where there are similar people with similar interests, all in the same place and suggested that the Lottery concentrate on advertising in some of those locations in the surrounding area. Mr. Lorden responded by saying that Lottery Marketing and Sales have been working together to increase signage and banners within the five mile radius, and have also met with the agents ensuring them that they have clear channels of communications within the Lottery. Executive Director Bresnahan said that there is a heightened awareness, but she feels that the biggest competition may come from Rhode Island who will be trying to recapture a lot of the players that they're losing to Plainridge. She said with this shift in dollars, the Lottery needs to stay active and continue to maintain excitement with game offerings and staying ahead of the competition and not complimenting what the others have to offer. Commissioner Shack asked Executive Director Bresnahan if the Lottery tracks an average of sales per person. Executive Director Bresnahan responded by saying that there are a lot of factors, one being jackpot levels. When a jackpot level is high, a player will tend to spend more because of the added attraction. She went on to say that the average lottery player spends between \$20.00 to \$30.00 a week and said that it's a different experience between walking into a 7-Eleven and walking into a casino and a player's intentions are different. Treasurer Goldberg concluded the discussion by saying that she is thinking more about snow removal in the winter rather than the experience at the casino and that we always need to remember our mission.

Concluding the discussion, Treasurer Goldberg then reminded the Commission that this is Executive Director Bresnahan's last meeting and ended by presenting Executive Director Bresnahan with a farewell cake. She wished her good luck and thanked her for all of her hard work.

After asking if there was any other business to discuss, Treasurer Goldberg sought a motion to adjourn the meeting. Commissioner Salvidio made the motion to adjourn, Commissioner Shack seconded the motion. The meeting adjourned at 10:59 a.m.