

Massachusetts State Lottery Commission

60 Columbian Street

Braintree, Massachusetts 012184-1738

Tel: (781) 849-5555

Fax: (781) 849-5546

TTY: (781) 849-5678

DATE: May 26, 2015

TIME: 10:00 a.m.

MEMBERS PRESENT: Deborah Goldberg, Treasurer and Receiver General
Tom Shack, 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
Elizabeth Day, Deputy Legal Counsel, Lottery
Matthew DiFrancesco, Director of Operations, Lottery
William Egan, General Counsel, Lottery
Ed Farley, Chief Administrative Officer, Lottery
Judy Moore, Executive Assistant, Lottery
Deirdre Richardson, Chief Financial Officer, Lottery
Christian Teja, Director of Communications, Lottery

Dave Falcone, Chief of Staff, Treasury
Sarah Kim, General Counsel, Treasury
Jim Macdonald, First Deputy Treasurer
Greg Polin, Deputy General Counsel, Treasury

Brittany McCleskey, Assistant Counsel, Office of the Comptroller
Robert Frasca, Interested Member of the Public

I. Opening of Meeting:

Treasurer Goldberg opened the meeting at 10:03 a.m.

II. Approval of Minutes from April 28, 2015

Treasurer Goldberg asked the Commission to accept the minutes of the meeting from April 28, 2015. Commissioner Salvidio made a motion to accept the meeting minutes. Commissioner Liddy seconded the motion. The minutes were approved at 10:05 a.m.

III. Executive Director Report

a. Sales Update

b. Marketing Update

Treasurer Goldberg began the meeting by introducing Tom Shack as the new State Comptroller. After a round of applause, Treasurer Goldberg announced that she had named Michael Sweeney as Lottery Interim Executive Director. She explained that Mr. Sweeney, who has served as Treasury's Deputy General Counsel since 2010, will be starting at the Lottery on June 1st to begin working with Executive Director Bresnahan as she transitions out of the Lottery at the end of June.

Executive Director Bresnahan reviewed Lottery Sales for April 2015 stating overall sales for April were \$19 million higher than the previous April. She noted a \$17 million increase in Instant Ticket sales, along with a \$4 million increase in KENO sales, contributed to the year-over-year growth. She informed the Commission that while Mega Millions and the Numbers game saw a slight increase, Powerball sales slipped by \$1 million for the month and Jackpot Poker, Lucky for Life, Mass Cash, and Megabucks Doubler each saw minimal sales decreases.

Executive Director Bresnahan proceeded to discuss the estimated prize payout for the month was 70.81 percent, as compared to 73.39 percent in April 2014. This brought the estimated prize payout for the first 10 months of FY15 to 72.43 percent, as compared to 71.79 percent for the same time period in FY14. She went on to say that the Lottery's higher prize payout percentage for the first 10 months of FY15 has decreased the year-over-year net profit by an estimated \$2.6 million. The Lottery's FY15 budgeted prize payout is 72.7 percent.

Treasurer Goldberg paused the meeting at this time to introduce incoming Interim Executive Director Sweeney who stopped in briefly to say hello. After brief introductions from all in attendance, Interim Executive Director Sweeney departed. Executive Director Bresnahan continued on to discuss the performance of each game within the Lottery's portfolio, which included:

- **Instant Ticket Sales:**

Executive Director Bresnahan provided a sales update on the Instant Ticket game sales noting sales were up almost \$17 million. She explained that the significant jump was primarily a result of the timing for the \$30 ticket introduction. The Lottery's first \$30.00 ticket was introduced last year on April 22nd, so there were three weeks in April 2014 that did not receive the benefit of \$30 sales. She continued to update the Commission on the sales for the April Instant Tickets. In the three weeks since their release, she noted the \$1.00 *Loose Change* Instant Ticket generated just over \$2.1 million. This prompted Treasurer Goldberg to say she recently visited some of the retailers in the Springfield region and said she received a great deal of positive feedback on the new *Loose Change* ticket. Executive Director Bresnahan explained that the game is indexing over 200 and said if an average game in the industry indexes at 100 it is considered a very strong game, so *Loose Change* is off the charts in terms of popularity. Executive Director Bresnahan continued her update noting the \$2.00 game generated \$3,536,272 in sales; the \$5:00 game sold \$7,426,170; and, the \$30.00 ticket generated \$32,072,820 in sales.

Executive Director Bresnahan then proceeded to discuss the Lottery's upcoming June Instant Ticket Release, unveiling the four new instant tickets which will be hitting store shelves on June 23rd: She distributed samples of the \$1.00 ticket, *Hit 50*; the \$2.00 ticket, *Money Money Money*; the \$5.00 ticket, *\$1,000,000 Jackpot* and the \$10.00 ticket, *\$4,000,000 Payout* explaining that these tickets all tested very well in the focus groups. Expanding on the June Instant Ticket release, Executive Director Bresnahan outlined the details of the POS advertising to support this game release displaying each piece that the Lottery planned to distribute. Treasurer Goldberg took this opportunity to encourage all in attendance to take the time to visit their local Lottery retailers, noting that on her visit, agents were happy to offer suggestions and ideas on what they would like to see in terms of advertising/promotional pieces. The agents conveyed to her that they like receiving the various POS materials that the Lottery offers because it helps draw attention to new game offerings and stimulates sales.

- Other Game Sales:

Executive Director Bresnahan moved on to discuss April's KENO which were up \$3,630,875. She reviewed the details of the Memorial Day Second Chance promotion that concluded on May 25th. She explained that similar promotions are offered during various holiday weekends throughout the year and each yields a sales boost during the promotional period. Commissioner Salvidio asked Executive Director Bresnahan if the Lottery has found a replacement for Jackpot Poker and she reminded the Commissioners that the Lottery will be holding focus groups this summer to test a few new concepts. Treasurer Goldberg remarked that people enjoy playing KENO and she has received ideas from players to create a new game similar to KENO perhaps calling it "Keno Plus." Executive Director Bresnahan explained that the idea is not to launch a game that competes with KENO, but rather complements it, saying KENO sales are currently up about \$25 million over last year and we wouldn't want to cannibalize those numbers. Jackpot Poker game sales were down \$192,971 which is a little bit less than the drop from the month before, but as Executive Director Bresnahan had mentioned, this game will soon be phasing out.

April Numbers Game sales were up \$135,770; Mass Cash sales were down slightly by \$29,778; Megabucks sales were down \$400,200 because of a higher jackpot offering last April (\$4.8 million) as compared to this April (\$1.3 million). Lucky for Life sales dipped slightly by \$15,590; Mega Millions sales were up by \$74,536 and Powerball sales were down \$916,523.

Commissioner Liddy asked if there is a certain sales level where the return on investment becomes too low and leads the Lottery to start to think about phasing a game out. Executive Director Bresnahan responded by saying there is not much cost involved in operating an established game, so that point is when a game begins to "get tired" and player excitement starts to dwindle. She went on to say the games that are in the portfolio now for the most part are mainstays. She mentioned The Numbers Game has been around for a long time and Megabucks has seen a decline each year because it must compete with multi-state jackpot games. She said although it's declining, it has a strong market. She mentioned the Lottery does make tweaks to games throughout the course of their life in the marketplace, noting that since its launch in March 2012 Lucky for Life has been through two modifications. She also noted that niche games tend to remain in play for about five to seven years before being replaced. Commissioner Salvidio asked if the Lottery is a seasonal business or if there is a sales pattern of ups and downs. Executive Director Bresnahan responded by saying that the sales pattern is fairly predictable because we try to schedule new games releases at the same time each year; however spikes in the multi-state jackpot games

will create fluctuations in the sales charts. In terms of seasonal sales, approximately one-third of the Lottery's sales are generated during the 10 week holiday period.

Executive Director Bresnahan concluded the report by recapping that overall game sales were up over \$19 million and net profit for the month was up \$13,943,913. Year-to-date sales are \$137 million ahead of last year or 3.5 percent higher. She also updated the Commission to where the Lottery stands to date net profit-wise, reporting that it was \$820,891,000 through the first 10 months of the fiscal year. This is \$2.6 million below last year and the Lottery is on course to meet its FY16 net profit projection of \$937 million.

IV. Votes Presented to the Commission

VOTE (1): Treasurer Goldberg asked for a motion authorizing the Executive Director to enter into a one (1) year contract extensions for the printing of Lottery bet slips with:

DBS
Haverhill, MA

RMF Printing Technologies, INC.
Lancaster, NY

The maximum obligation assumed under both contract extensions shall not exceed \$550,000.00.

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

Counselor Egan introduced the vote explaining that the extension requests were generated by the Lottery's Operations group, for the draw game bet slips that are used/processed by the sales terminals located at each retailer location. He informed the Commission that the recommendation to extend the current contracts was made, rather than go out to full RFR, because the current ISYS terminals are slated to be replaced within the next year to two years. He explained that it is anticipated the current bet slip will change with the introduction of new technology. He continued by saying both companies are willing to hold their prices at the previous year's level which also supports the recommendation to extend the contracts.

The Commission voted 5-0 to adopt the motion.

VOTE (2): Treasurer Goldberg asked for a motion authorizing the Executive Director to enter into a one (1) year contract extension for Terminal Printer Ribbon Cartridges with:

GTECH
Providence, RI

The maximum obligation assumed under this extension shall not exceed \$762,000.00.

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

Counselor Egan introduced the vote, explaining that due to the age and antiquated technology of the current ISYS terminals, there are no other companies still offering the type of printer ribbon cartridges needed to print tickets from the Lottery's 8,500 terminals. Most of the terminals currently in use in other states use thermal printing and the Lottery will also be moving in that direction once the ISYS machines are replaced. He noted GTECH is willing to hold their price at last year's level and this again supports the one year extension.

The Commission voted 5-0 to adopt the motion.

VOTE (3): Treasurer Goldberg asked for a motion authorizing the Executive Director to enter into a one (1) year contract extension for Statewide Delivery Services with:

United Parcel Service
Atlanta, GA

The maximum obligation assumed under this extension shall not exceed \$3,000,000.00.

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

Counselor Egan introduced this vote and explained that UPS is an integral service provider to the Lottery. It currently ships all ticket orders to retailers a day. He continued by noting that they have been a contracted vendor for 15 years, and have proven to be a proven reliable partner of the Lottery. Commissioner Liddy then asked if there is a set timeframe when the Lottery must engage an RFR process, and Counselor Egan explained that the typical contract awarded is a three-year term with two one-year extensions. The decision to exercise the option years is assessed with each contract and is based on performance and cost benefit. Counselor Egan referred to the supporting materials for the remaining reasons for supporting the contract extension.

The Commission voted 5-0 to adopt the motion.

VOTE (4): Treasurer Goldberg asked for a motion authorizing the Executive Director to enter into a one (1) year contract extension for roll ticket stock with:

RMF Printing Technologies, Inc.
Lancaster, NY

The maximum obligation assumed under this extension shall not exceed \$900,000.00.

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

Counselor Egan introduced the vote restating that with the ISYS terminals being replaced in the next year to two, the roll ticket stock currently in use will not be the same, and when the new machines are purchased, the Lottery will be looking to purchase compatible ticket stock. He informed the Commission that unfortunately, unlike the previous votes, there would be an increase in the price and asked the Lottery's Director of Operations, Matthew DiFrancesco, to explain further. Mr. DiFrancesco informed the Commission that due to the infrequent use of this particular type of stock, not many paper mills carry it. He noted that the cost is rising to

.66 cents per roll. He continued to say this is a product the Lottery ships to its agents every day and is needed for the daily operation of game sales.

The Commission voted 5-0 to adopt the motion.

VOTE (5): Treasurer Goldberg asked for a motion authorizing the Executive Director to enter into a one (1) year contract extension for Lottery Instant Tickets, Game Designs and Marketing Services with:

GTECH Printing
Providence, RI

Pollard Banknote Limited
Winnipeg, Manitoba, Canada

Scientific Games International, Inc.
Alpharetta, GA

The aggregate maximum obligation assumed under the one (1) year extensions shall not exceed \$17,066,666.00.

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

Counselor Egan introduced the vote and turned the discussion over to Executive Director Bresnahan who spearheaded this effort. Executive Director Bresnahan began by saying that similar to the votes before, this locks in good prices for services we rely on. Instant Tickets sales represent approximately 70 percent of the Lottery's total revenue. She said since the anticipated FY16 budget falls below what was requested, it is important to lock in prices so the Lottery can carry out a robust Instant Ticket launch plan and meet FY16 sales projections. She said the Lottery went to each of these three vendors and asked if they were willing to hold their prices at the 2012 contract, which were the best prices in the industry. She said the Lottery spends just under \$17 million in Instant Ticket printing and generates well over \$3 billion in ticket sales, so it's well worth what is spent.

Following a brief discussion about FY16 funding, the Commission voted 5-0 to adopt the motion.

VOTE (6): Treasurer Goldberg asked for a motion authorizing the Executive Director to enter into a three (3) year contract for Software Application and Its Supporting Systems for Mobile Devices with:

RealPoliTech
San Francisco, CA.

The maximum obligation assumed under this extension shall not exceed \$182,818.06.

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

Counselor Egan introduced the vote and explained that this recommendation is the product of a competitively-bid RFR. RealPoliTech will provide a mobile application that will enable KENO players to view game results on their phones or mobile devices two minutes after each game has taken place. It will not be a mechanism or platform to sell tickets through, simply to view the game results, and will be available on both Apple and Android platforms. Executive Director Bresnahan added this is something that will provide additional convenience to players. Counselor Egan stated that this will be the Lottery's first entry into the mobile platform.

The Commission voted 5-0 to adopt the motion.

VOTE (7): Treasurer Goldberg asked for a motion authorizing the Executive Director to enter into a one (1) year contract extension for consultant services for a new on-line gaming system with Camelot Global Services, Inc. of Sacramento, CA with a maximum obligation of \$20,000.00.

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

Counselor Egan introduced the vote and explained that this is an extension of a competitively bid contract for services to assist the Lottery in drafting the RFRs for the host and terminal systems. Counselor Egan explained that Camelot provided valuable consulting service based on its worldwide presence. The extension was requested as an assurance, should the Lottery's MIS team require technical assistance during the implementation process. The \$20,000.00 maximum obligation is the unspent amount remaining in the previous contract and no additional funding is being requested at this time.

The Commission voted 5-0 to adopt the motion.

VOTE (8): Treasurer Goldberg asked for a motion authorizing the Executive Director to establish the maximum obligation for the final three months of the contract for the provision of Advertising Services with Connelly Partners of Boston, MA at \$1,403,375.00.

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

Counselor Egan introduced the vote and explained that this contract, which crosses fiscal years, is set to expire in September; however, the final three months of the contract must be funded so the Lottery can carry out its advertising programs as planned. He continued by informing the Commission that an RFR for the services that fall under this contract recently closed and the Lottery received three bids that are currently being evaluated. When that process has concluded and a winner is determined, the Executive Director will return to the Commission with a vote on the contract award and request to set the maximum obligation for the remainder of FY16.

The Commission voted 5-0 to adopt the motion.

VOTE (9): Treasurer Goldberg asked for a motion authorizing the Executive Director to enter into contracts and make payment for the amounts specified in the supporting memo for all standard operating costs for all Lottery offices and fuel charges for Lottery issued vehicles.

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

Counselor Egan introduced the vote and explained that due to the overall costs associated with operating the offices and other daily business operations exceeding \$150,000.00, the Executive Director began bringing this request to the Commission three years ago for their approval. It is a standard request and each expense is a necessary expenditures to continue daily operation of the Lottery headquarters and its regional offices. Counselor Egan informed the Commissioners that Matt DiFrancesco was present and could answer any questions regarding the charges and drafted the memorandum in the Commission book with the reasons supporting the vote.

The Commission voted 5-0 to adopt the motion.

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

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 Commission voted 5-0. The meeting adjourned at 11:09 a.m.

DOCUMENT LIST (Distributed to or referred to at meeting)

1. Booklet entitled: "Massachusetts State Lottery Commission May 2015 Commission Meeting"
2. Booklet entitled: "Massachusetts State Lottery Commission Executive Director's Report Presented on: May 26, 2015"
3. Point of Sale materials and voided sample instant tickets for June launch of Instant Ticket games.