

Massachusetts State Lottery Commission

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DATE: Tuesday, February 23, 2016

TIME: 10:30 a.m.

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

ALSO PRESENT: Michael Sweeney, Executive Director, Lottery
Edward Farley, Chief Administrative Officer, Lottery
Carol-Ann Fraser, General Counsel, Lottery
Christian Gonsalves, Deputy General Counsel, Lottery
Christian Teja, Director of Communications, Lottery
Judy Moore, Executive Assistant, Lottery

Dave Falcone, Chief of Staff, Treasury
James MacDonald, First Deputy Treasurer, Treasury
Sarah Kim, General Counsel, Treasury
Shawn Collins, Legislative Director, Treasury
Chandra Allard, Deputy Communications Director, Treasury
Rebecca Harris, Intern, Office of Public Safety and Security

Marlene Warner, Executive Director, Mass Council on Compulsive
Gambling

Colin Young, State House News Service

I. Opening of Meeting:

Treasurer Goldberg opened the meeting at 10:34 a.m. and asked Executive Director Sweeney to introduce the Lottery's new General Counsel, Carol-Ann Fraser, to the Commission. Executive Director Sweeney began by announcing that General Counsel Fraser is joining the Lottery team after 20 years as a partner at Fraser Law Office LLP in Andover. He went on to say that Attorney Fraser comes to the Lottery with a lot of experience representing private

clients in respect to governmental matters and has previously served as a special assistant district attorney in Essex County. He encouraged the Commission to reach out to Attorney Fraser with any matters or assistance they may need related to the Massachusetts State Lottery. Executive Director Sweeney also took a moment to acknowledge and thank Deputy General Counsel, Christian Gonsalves, for the excellent job he has done in assisting the Lottery with legal matters in the interim.

Treasurer Goldberg agreed, thanking Deputy General Counsel, Gonsalves, commenting that “he really carried the load and has done a superlative job.”

II. Approval of Minutes from January 13, 2016 and January 26, 2016

Treasurer Goldberg asked the Commission to accept the minutes of the meetings from January 13, 2016 and also from January 26, 2016. Commissioner Salvidio made a motion to accept the minutes of the meetings and Commissioner Liddy seconded the motion. The motion passed unanimously. The minutes were approved at 10:38 a.m.

III. Executive Director Report

a. Sales Update

b. Marketing Update

Executive Director Sweeney began the meeting by acknowledging that Marlene Warner, Executive Director of the Mass Council on Compulsive Gambling was in attendance and pointed out that March is Problem Gambling Awareness month. He remarked that the Lottery has a number of activities planned on its own, and in conjunction with Marlene and her team, to get the message out to Lottery employees as well as to the public. Executive Director Sweeney then reviewed Lottery sales for January, announcing overall sales were up an estimated \$96.6 million compared to January of last year and estimated net profit for the month was \$124.9 million as compared to \$93.3 million in January of 2015, an estimated increase of approximately \$31.6 million. Regarding the net profit, Executive Director Sweeney explained that due to a shift in the calendar, one less day was included in the Fiscal Year (“FY”) 2016 year-to-date net profit figure when compared to FY15. The estimated net profit for the first seven months of FY16 is: \$602.6 million, compared to \$587.2 million through the first six months of FY15, an estimated increase of \$15.4 million. He reported that this is the first time in FY16 that the net profit year to date is tracking higher than last year. He explained that after adding in that additional day, the average net profit figure of \$2.8 million, the adjusted year-over-year change for the first seven months of FY16 versus the first six months of FY15 is an estimated \$18.2 million increase in net profit. The estimated prize payout for the month of January was at 70.47 percent as compared to 73.14 percent in January, 2015 and the year-to-date prize payout for FY16 is at an estimated 73.12 percent, as compared to 72.45 percent for the same seven-month period of FY15. The estimated 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 has been awarded in FY16.

Executive Director Sweeney continued the discussion by indicating that the Instant Ticket portfolio saw a sizeable \$24.4 million sales increase in January 2016 versus January 2015. He also noted that, with the consecutive record setting jackpot that drove unprecedented levels of sales, Powerball sales increased by \$66.3 million in January 2016 as compared to January

2015. KENO sales also continued to be strong during the month, experiencing an increase of \$7.9 million over January of last year. Executive Director Sweeney also disclosed that Megabucks Doubler, the Numbers Game, Lucky for Life and Mass Cash, respectively, had increased sales over January 2015.

Executive Director Sweeney noted that Mega Millions sales were down at \$4.6 million compared to January 2015, and citing a larger jackpot in January 2015. Jackpot Poker sales were down approximately \$68,865 in sales as compared to January 2015. Executive Director Sweeney summarized the update, reporting that overall, all game monthly sales saw a good month with very strong performances across the board and told the Commission, "January was really a door buster."

Powerball

With a historic Powerball jackpot in January, culminating in a \$1.5 billion drawing on January 13, 2016, Executive Director Sweeney disclosed that the Lottery saw record sales for Powerball and other games, and took a few minutes to review the Powerball Game Monthly Sales Chart. Powerball sales last month alone reached \$78.5 million, up \$66.3 million or 543.7 percent over January 2015. Referring to a line graph showing the monthly Powerball ticket sales over the last three years, Powerball had an enormously positive impact both generally, with public and product awareness, and it proved beneficial to the Lottery's retail agents, by generating increased sales and enlarging their commissions and bonuses. The Lottery experienced a net positive impact across the board.

5 Year Comparison Chart

Executive Director Sweeney went on to discuss the 5 Year Comparison chart which shows the highest payout as a percentage of the Lottery's sales from the last five years, concluding that the huge increase in sales helped to pull down the total prize payout as a percentage of sales for the year. We have been, and still are, tracking very high, but for the entire year now, we are at approximately 73.1% as compared to 72.5% for the previous fiscal year. He concluded by saying, for this brief snapshot, that number has pulled back and it will be interesting to see what happens over the next two or three months.

Gross Sales Results

Referring to the Gross Sales Results chart, January FY16 versus FY15, Executive Director Sweeney highlighted the impact of Powerball which showed a 543.7% increase in sales year over year which brought in an additional \$66 million. Instant Ticket sales were very healthy at a 7.5% increase year over year as well as KENO which was up almost 10.2%. Overall sales were up 20.6%.

Referring to the Year to Date Gross Sales Results chart, Executive Director Sweeney reported Powerball sales are up for the entire year at 137% and total sales are up a very solid 6% from last year.

Powerball

Executive Director Sweeney took a minute to describe the general mechanics of Powerball and explained to the Commission that Powerball is offered in 44 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. The Jackpot prize is funded by all participating lotteries, proportionate to each lottery's sales of the game and that each participating lottery is responsible for paying out all other prizes on tickets that they sell. He also detailed the cost, the process, and the rules of the game and he broke down the Powerball sales revenue in Massachusetts. Executive Director Sweeney told the Commission that the odds of winning the jackpot are 1 in 292,201,338 and with respect to

that, the Lottery continually reminds its players to play responsibly, play within their budgets and to not change their spending habits for a large jackpot.

Instant Ticket Sales Update

Executive Director Sweeney updated the Commission on Instant Ticket Sales by examining Price Points using a chart illustrating the fundamental change that's occurring not only within the Massachusetts State Lottery but also within lotteries across the country. He pointed out that in FY 2013, the sale of \$1, \$2 and \$5 Instant Scratch Tickets, made up approximately 55% of the sales, and the \$10 and \$20 tickets only made up about 45%. The percentage began to shift in April of FY14, when the Massachusetts State Lottery introduced the first \$30 Instant Ticket. It was in that year, the lower priced tickets only made up 49% of the sales and the higher priced tickets made up 51%. Executive Director Sweeney showed that the trend has continued and in FY16; only 43% of Instant Ticket sales are included in the \$1 to \$5 grouping and 57% is encompassed with-in the \$10 to \$30 grouping. He continued by saying that this has fundamentally changed the profit structure and is impacting net profit negatively.

Executive Director Sweeney continued the discussion by updating the Commission on the launch of the \$2,000,000 50X Cashword Instant Ticket, revealing that sales have been extremely strong for the first three weeks at: \$10,699,470. Assistant Executive Director and Chief Administrative Officer, Ed Farley, informed the Commission of that the good feedback on this ticket. When this particular ticket was launched, it represented 7.28% of Instant Ticket sales.

Executive Director Sweeney reviewed the March release of the new family of Instant Tickets, "The Cash", and he was confident on sales. The ticket tested successfully in focus groups. He provided sample tickets and point of sale advertising that will accompany the campaign to all who attended the meeting.

Social Media Messaging

Executive Director Sweeney moved on to share social media promotions of Lottery products. He showed examples of recent strategies employed on Twitter, Facebook and Instagram. He spoke about the success of the "Taxes Paid" Sweepstakes promotion utilizing social media. In this example, the player comments, "I want my Taxes Paid" and the player is automatically entered for a chance to win a \$1,000 Taxes Paid cash prize and a three month Powerball Season Ticket. The immediate response was amazing! Within the first couple of hours, there were over 400 "likes" on the Facebook post, many had shared the post on their Facebook pages and there were positive remarks in the comment section of the post.

Executive Director Sweeney ended the report by saying that it has been a good month. He complimented the Lottery team and the retail agents for their great work throughout January and, especially during the Powerball frenzy. Treasurer Goldberg agreed with Executive Director Sweeney and took a moment to say that Powerball provided the opportunity to enhance the Lottery's net profit. She also mentioned that, during her last meeting with the Governor, she shared the Lottery's statistics about social media and he was pleased to hear of the hits and likes. She went on to say that there are some exciting things going on at the Lottery. We are recognizing the challenges and trying to address them, because at the end of the day, it's about all the cities and towns of the Commonwealth.

IV. Votes Presented to the Commission

Before the first vote was introduced, Executive Director Sweeney informed the Commission that, on this particular vote, although it did generate out of one RFR contracting two firms, he respectfully requested the Commission to vote separately on each the firms.

VOTE (1): Treasurer Goldberg asked for a motion to authorize the Executive Director to exercise the second one-year contract option for Lottery Bet Slips with the following firm:

DBS
144 Hilldale Avenue
Haverhill, MA 01831

This original award was made pursuant to a competitive bid LOT #1213. The selected vendors were the two of three companies to file responses.

The total maximum obligation assumed under the contract extension shall not exceed six hundred sixty two thousand dollars (\$662,000.00) for the one-year term.

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

Executive Director Sweeney introduced the vote by informing the Commission that this is a fairly routine contract and said that this is the last option extension for the contract and anticipated that the team at the Lottery will be going out to bid by late summer. DBS has agreed to hold its pricing at FY15 levels.

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 (1): Treasurer Goldberg asked for a motion to authorize the Executive Director to exercise the second one-year contract option for Lottery Bet Slips with the following firm:

RMF Printing Technologies, Inc.
50 Pearl Street
Lancaster, NY 14086

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

Executive Director Sweeney introduced the vote by saying that this is the exact same contract as DBS and the Lottery contracted the two firms that had the most competitive and best costs. This being such a critical product for the Lottery to function, the idea is to

not have everything locked up with one company. Treasurer Goldberg asked Executive Director Sweeney if the \$662,000.00 was the total cost of the contract for both firms, and the Executive Director assured her that it was.

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 to authorize the Executive Director to exercise the second one-year contract option for roll ticket stock with the following firm:

RMF Printing Technologies, Inc.
50 Pearl Street
Lancaster, NY 14086

The original award was made pursuant to a competitive bid process (RFR LOT #1206).

The total maximum obligation assumed hereunder shall be nine hundred sixty-six thousand dollars (\$966,000.00).

Commissioner Salvidio made the motion to enter into the contract and Deputy Comptroller Shapiro seconded the motion.

Executive Director Sweeney introduced the vote by informing the Commission that RMF has agreed to produce and supply the present Roll Ticket Stock for the Lottery for FY 2017 and hold the current pricing. He went on to say that similar to the last contract discussed, this is the last option extension and he expected the team at the Lottery to go out to bid by late summer.

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 the purchase of related parts and services for Self Service Player Activated Terminal with the following firm:

IGT Global Solutions Corporation (f.k.a. GTECH CORPORATION)
10 Memorial Boulevard
Providence, RI 02093

This original award was made pursuant to a competitive bid process (RFR LOT #1113)

The total maximum obligation assumed hereunder shall be eight million nine hundred seventy nine thousand and three hundred ninety six dollars (\$8,979,396.00).

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

Executive Director Sweeney introduced the vote by informing the Commission that this is for an increase of approximately \$125,000.00. He said that currently, only about \$39,000.00 is left under this contract and this is something that the Lottery continuously engages in doing as far as changing parts and in repairing these particular machines. He said similar to the previous vote, this contract is at the end of its life cycle and the Lottery will go out for another RFR around early fall.

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

After asking if there was any other business to discuss, Treasurer Goldberg sought a motion to adjourn the meeting. Assistant General Counsel Hickey made the motion to adjourn, Commissioner Liddy seconded the motion. The motion passed unanimously. The meeting adjourned at 11:11 a.m.