

Massachusetts State Lottery Commission

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DATE: Tuesday, August 30, 2016

TIME: 10:30 a.m.

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

ALSO PRESENT: Michael Sweeney, Executive Director, Lottery
Edward Farley, Chief Administrative Officer, Lottery
Carol-Ann Fraser, General Counsel, Lottery
Michael Lorden, Director of Sales & Regional Operations, Lottery
Christian Teja, Director of Communications, Lottery
Judy Moore, Executive Assistant, Lottery

James MacDonald, First Deputy Treasurer, Treasury
Sarah Kim, General Counsel, Treasury
Dan Truong, Assistant Communications Director
Shawn Collins, Legislative Director, Treasury

Colin Young, State House News Service
Michael Demakos, O'Neill & Associates

I. Opening of the Meeting:

First Deputy Treasurer James MacDonald opened the meeting at 10:31 a.m., explaining that Treasurer Goldberg was in traffic and would be arriving shortly.

II. Approval of Minutes from July 18, 2016

First Deputy Treasurer James MacDonald asked the Commission to accept the minutes of the meeting of July 18, 2016. Commissioner Salvidio moved to accept the minutes of the meeting, and Assistant General Counsel Sullivan seconded the motion. The minutes were approved at 10:32 a.m.

III. Executive Director's Report

a. Sales Update

b. Marketing Update

Executive Director Sweeney reviewed Lottery sales for July, announcing overall sales for July of 2016 were up \$16.9 million over July 2015. Executive Director Sweeney explained that, due to a shift in the calendar, five additional days are included in the net profit figure for July 2016, net profit for the month was \$90.1 million compared to \$67.1 million in July 2015. After subtracting a five day average net profit figure of \$15.0 million, the adjusted change for July 2016 vs. July 2015 was an \$8.0 million increase in net profit. The prize payout for July 2016 was 72.46 percent, as compared to 73.98 percent in July 2015. The year-to-date prize payout for the first month of FY17 is 70.14 percent, as compared to 76.11 percent for the first month of FY16. This was due to a lower number of Instant Ticket jackpot prizes claimed and the absence of last fiscal year's accrual related to the \$20 million end of game Mega Cash prize. Executive Director Sweeney anticipates that figure will continue to inch up as the accrual from last fiscal year disappears and the normal numbers from last year begin to take effect. Executive Director Sweeney explained that, due to the lower prize payout for July 2016, and a shift in the calendar resulting in five additional days being included in the net profit figure for July 2016, the year-to-date net profit for the first month of FY17 is \$100.1 million compared to \$59.6 million for the first month of FY16. After subtracting a five day average net profit figure of \$16.7 million, the adjusted year-over-year change for the first month of FY17 vs. the first month of FY16 is \$23.8 million in net profit.

Executive Director Sweeney reported that Powerball and Mega Millions experienced increased sales in July of 2016 over July of last year primarily due to larger jackpots this year. Powerball sales were up \$13.5 million, Mega Millions sales were up \$11.5 million and Megabucks Doubler and Mass Cash sales both experienced small increases in sales over July of last year. The Lottery's new, ALL OR NOTHING monitor game, which replaced Jackpot Poker, was successfully launched on July 18th, with sales totaling \$3.3 million. Executive Director Sweeney took this as an opportunity to thank Chief Administrative Officer, Ed Farley, Director of Sales & Regional Operations, Michael Lorden, and Director of Communications, Christian Teja, for their efforts on the marketing, media and sales front, acknowledging that the launch went very well and that total month sales for ALL OR NOTHING were greater than the entirety of the sales from Jackpot Poker for all of FY 2016.

Instant Ticket sales were down \$9.6 million in July of 2016 compared to July of 2015. KENO sales for July of 2016 were down \$716,416. Executive Director Sweeney believes that the decrease could possibly be the impact from the launch of ALL OR NOTHING and added that he would continue to monitor sales. Numbers Game sales were down \$673,613 and Lucky for Life sales were down by \$227,936. Commissioner Salvidio asked if the decrease in KENO and Instant Ticket sales could be attributed to players putting their efforts into Powerball jackpots. Executive Director Sweeney responded that, although that could be a factor, it's hard for the Lottery to predict how the summer weather and vacation patterns positively or negatively impact sales. The Lottery recognizes that Instant Ticket sales have been stagnant throughout the Commonwealth as well as in most states and does not anticipate that to change. This fiscal year, the Lottery has seen percentage growth in Instant Tickets between negative one and negative three and unfortunately, this accounts for about 70% of the

sales revenue. Commissioner Salvidio asked if it was demographic issue. Executive Director Sweeney explained that it was a number of issues, including demographics, but also the way people are engaged in gaming these days. Many consumers are involved in social gaming where they can share results with friends, family and business colleagues. The Instant Ticket provides a different type of player experience, where as social gaming provides a more social experience.

Executive Director Sweeney followed up by providing additional details on each game across the Lottery's portfolio for the month. As stated earlier, Executive Director Sweeney reported that the Lottery continues to expand KENO in the marketplace, and that sales continue to remain strong. Jackpot Poker closed out with a small revenue with sales of \$22,044. Referring to ALL OR NOTHING sales, Executive Director Sweeney remarked that the Lottery would be pleased if it continued to bring in the \$3.3 million dollars a month as it did in July, but that revenue isn't expected. The Lottery will closely monitor sales over the next quarter to establish a steady rhythm. Although a decrease is expected, Executive Director Sweeney pointed out that ALL OR NOTHING sales for July were more than what Jackpot Poker took in as a second monitor game all of last year. He commented that most of the feedback has been good from retail agents and customers. Executive Director Sweeney presented a graphic comparison of Jackpot Poker and ALL OR NOTHING which provided a good sales visual of the two games together. He explained that the roll out of ALL OR NOTHING is not yet in every location. Therefore, there is more room to grow. He added the most fascinating aspect was that a strong number of the sales were from the ALL OR NOTHING To Go mobile feature. He cited this as another example of how technology enables players to check something on-line or on their phone, and how it is clearly playing out in the marketplace.

Five Year Comparison Chart

Executive Director Sweeney went on to discuss the five year comparison chart, which is a key chart showing the highest payout as a percentage of the Lottery's sales from the last five years. He reported that the 70.1% on the prize payout would possibly be something the Lottery won't see again soon. He remarked that although ALL OR NOTHING may have helped the percentage, it was more of a component of the Instant Game rotation, and not factoring in last year's accrual, which he estimated being about \$6 or \$7 million dollars. This would have pushed the percentage up to more familiar territory of 72% or 73%. He anticipated the percentage will begin to increase into the more normal range that we have been experiencing.

Gross Sales Results

Referring to the Gross Sales Results chart, July FY16 vs. FY15 Unadjusted Non-Fiscal Year, Executive Director Sweeney reported that overall total sales were up \$16.9 million which was driven by both Mega Millions and Powerball experiencing significant jackpots during the month of July. The real focus however, was on Instant Tickets, which were down almost 3%. Executive Director Sweeney did not anticipate that number to change very much and stated that it could fluctuate a few percentages higher during the course of the year. The good news was the successful sales and retail interaction on ALL OR NOTHING.

Instant Tickets

Executive Director Sweeney continued the discussion by providing a sales update on August Instant Ticket sales. He reported that overall, players were satisfied with the initial

release. Chief Administrative Officer Ed Farley stated that sales for the month of August were strong, in particular the Monopoly Jackpot ticket which had a lot of good customer feedback. Executive Director Sweeney explained that there were a lot of good features to the Monopoly Jackpot Instant Ticket and after the launch of game, the Lottery experienced almost a 300% increase with 1,040 new VIP Club registrations within the first week after the launch. These registrations provide email addresses which allows the Lottery to have direct consumer base contact. The Lottery's Second Chance mobile application is expected to be ready in September which will allow players to scan their non-winning tickets to enter this game's Second Chance Drawings.

Legal staff at the Lottery negotiated with Scientific Games to be allowed to withdraw on the Monopoly Jackpot ticket based on a timeline and a sales volume at an unprecedented 60%. Deputy Comptroller, Chief Operating Officer Jeffrey Shapiro complimented the Lottery on the great work being done to close tickets that remain on the market too long. Executive Director Sweeney remarked that, to his knowledge, this is the first time that any Lottery in the country has offered this opportunity and it dovetails off the closing out second chance games that linger on the market too long.

Chief Administrative Officer Ed Farley noted, that as of last week, the number of VIP registrations actually doubled to 2,537 and for the Monopoly Jackpot game alone, the Lottery has a 12,796 unique player participation entered into the Second Chance registration.

As part of the discussion around Instant Tickets, Executive Director Sweeney delivered a preview of the September Instant Tickets due to be released on September 20th. He handed out POS material and samples of the \$1.00, \$2.00, \$5.00 tickets as well as the new \$20.00 ticket, \$10,000,000 Gold. He mentioned that the \$5 Spooky Cash ticket is a limited run and the \$1 Loose Change Instant Ticket sold out last year within six months and he is hoping for a repeat this year.

Labor Day KENO Promotions

Executive Director Sweeney shared with the Commission two Labor Day KENO promotions offering a bonus chance to KENO players to win \$2016 in addition to a KENO agent incentive. Every non-winning KENO, KENO Bonus and KENO to-go ticket sold, has a bonus chance to win \$2,016. For every \$300 in KENO, KENO Bonus and KENO to-go sales, agents will earn one entry into a special drawing to be held on September 7th. These promotions will both begin on September 1st and run until September 6th.

Social Media Messaging

Executive Director Sweeney moved on to share the Lottery's activities using social media to promote Lottery products. He showed examples of recent and upcoming strategies that have been done on Twitter, Facebook and Instagram. He mentioned that the Lottery makes it a priority to promote responsible gaming especially during large jackpots and reminded players not to exceed their normal play budget. He also reported on one of the five agents who won \$1,000 during an ALL OR NOTHING incentive and also on players who had won during the initial launch. Executive Director Sweeney highlighted the Heroes Among Us ceremony promoted on Instagram and described the event as a phenomenal part of the Lottery's partnership with the Boston Celtics. Through participation of the Massachusetts State Lottery, this event recognizes all of the heroes that were honored throughout the year at Boston Celtics games, and who all come together at the State House for one final recognition for the year.

Mass Lottery Intercept Program

Executive Director Sweeney reminded the Commission that the main mission at the Lottery is to provide local aid back to the 351 cities and towns and said that the team at the Lottery is constantly engaged in a variety of activities. He updated the Commission on the Mass Lottery's Intercept Program, explaining that when any prize of \$600 or above is claimed at the Lottery headquarters in Braintree, or at any regional office, prior to processing a prize check, a program is run to see if the claimant appears in a state-provided delinquent debtor file. If the claimant appears on the list, the amount owed is automatically deducted from his or her prize winnings and diverted to the Commonwealth. Since the program's inception in 1994, over \$13.5 million has been returned to the Commonwealth from 13,839 claims, through July 2016.

Massachusetts Lottery Reroute Overview

Executive Director Sweeney proceeded with the discussion by giving an overview of the new Massachusetts Lottery reroute schedule. He explained that, last November, Director of Sales & Regional Operations, Michael Lorden, reviewed what aspects of the business could be easily made more efficient. He explained Lottery account representatives are on the road five days a week, traveling throughout the entire Commonwealth, resulting in thousands and thousands of miles each month and each year. Michael Lorden, as the supervisor in this area, felt that there was a lot of room for improvement.

The new sales routes, now 63 instead of 49, were configured with the help of a paid consultant and are expected to decrease the time sales agents spend driving and increase the time they spend with each Lottery retailer. Each Lottery retailer will get a 20-minute visit with a sales agent every two weeks.

The reorganization is projected to drop the total number of miles driven by Lottery sales agents each year from 243,408 to 89,352, a decline of about 63 percent. Putting fewer miles on the Lottery-owned vehicles means fewer oil changes and other maintenance.

Pointing to a map that showed the web of sales territories before the reorganization, Executive Director Sweeney said there was a great deal of congestion and overlap in a lot of the regions. He then showed the Commission a map of the new territories, which showed a lot less overlapping. Executive Director Sweeney will update the Commission once it has a few months of data to share.

IV. Votes Presented to the Commission

VOTE (1): Treasurer Goldberg asked for a motion to authorize the Executive Director to enter into two (2) contracts, each one for a three (3) year period, for corrugated boxes, with the following firms:

Rand-Whitney Container LLC
One Agrand Street
Worcester, MA 01607

Interstate Container Lowell LLC
240 Industrial Avenue
Lowell, MA 01852

The award is made pursuant to a competitive bid process (RFR LOT #1606).

The maximum obligation assumed hereunder for both contracts combined shall not exceed three hundred sixty thousand dollars (\$360,000.00).

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

Executive Director Sweeney introduced the vote by informing the Commission that an RFR was issued in May of this year with responses due back in July. Initially, the Lottery received four responses resulting with one of the bidders being disqualified for failure to meet some of the minimum requirements. The two bidders that were chosen had the highest scores and the best price quotes.

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 in favor of the motion. The Motion carried.

VOTE (2): Treasurer Goldberg asked for a motion to authorize the Executive Director to enter, under state contract OFF43, to utilize a state consortium contract with **UPS**, 35 Glen Lake Parkway, Atlanta, GA, to provide next business day delivery services.

The total maximum obligation assumed hereunder shall be two million seven hundred and fifty thousand dollars (\$2,750,000.00).

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

Executive Director Sweeney introduced the vote by informing the Commission that Lottery finance became aware that UPS had entered into a state wide contract. The Lottery reviewed the statewide contract, which offered more favorable terms. There are some significant expenses around delivery services. Executive Director Sweeney described the expenses as normal business carrying costs. Transfer to the statewide contract will save the Lottery somewhere upwards of 10% to 12% in costs.

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 in favor of the Motion. The Motion carried.

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 moved to adjourn and Deputy Comptroller Shapiro seconded the motion. The motion carried unanimously. The meeting adjourned at 11:07 a.m.